



Alberta Legislature

Annual Report of the Auditor General 1988-89

CANADIANA

MAR 27 1990



Alberta Legislature
Office of the Auditor General

Mr. R. J. Bogle, MLA
Chairman
Select Standing Committee
on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1989, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

Donald D. Salmon
FCA
Auditor General

Edmonton, Alberta
January 15, 1990

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

FOR THE YEAR ENDED

MARCH 31, 1989

SECTION 1

1.1 INTRODUCTION AND OVERALL ASSESSMENT

1.1.1 This report is issued pursuant to section 19 of the Auditor General Act. It is my fourth annual report to the Legislative Assembly and the eleventh such report issued by the Auditor General of Alberta. This report is for the year ended March 31, 1989. Nevertheless, some of the observations and recommendations it contains resulted from audit work carried out since that date.

Section 2 describes the work of my Office. It outlines the audit work undertaken for 1988-89 on each government department and agency, and contains a selection of the audit observations and recommendations that resulted from that work. The action taken in response to these recommendations will be reviewed during next year's audits. The recommendations that I consider are most significant and which particularly warrant the attention of the Legislative Assembly are numbered and shown in bold type.

Section 3 of the report describes the nature of the auditing carried out and the criteria that I used when deciding which audit observations and recommendations to include in this report. It also contains a summary of the audit report reservations issued for 1988-89, together with a brief commentary on the Province's operating results.

Section 4 describes the responsibilities, operations and organization of my Office.

The Auditor General Act sets out the matters that I can and must report. Most are shortcomings or irregularities such as systems weaknesses, control deficiencies, non-compliance with legislation, and inadequate accounting and reporting practices. In other words, the Act requires my report to concentrate on matters that I believe are unsatisfactory. However, the audit work which supports my report each year under Section 19 of the Auditor General Act can also be a basis for an overall assessment of the financial administration of the Province.

Overall Assessment

1.1.2 The scope and extent of audit work completed for 1988-89 is outlined in Section 2 of this report.

Based on the audit work carried out, I am generally satisfied with the financial administration of the Province during 1988-89, though I believe there is still scope for improvement as evidenced by the reported observations and recommendations.

During the past year, I have been particularly pleased with the action taken by management in response to my previous recommendations.

Acknowledgements

1.1.3 My responsibilities are discharged more easily with the ready co-operation of those whose affairs are audited. For this reason, I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management of departments and agencies.

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office, I received all the information, reports and explanations that were required.

Furthermore, I am pleased to acknowledge the efforts of my staff who have contributed so significantly to this report.



FCA
Auditor General

Edmonton, Alberta
January 3, 1990

SECTION 2

2 AUDIT COVERAGE, OBSERVATIONS AND RECOMMENDATIONS

2.1 INTRODUCTION

2.1.1 This section of the report explains the extent of the audit work undertaken and includes significant observations and recommendations that were reported to management as a result of that work.

Recommendations

2.1.2 The audit observations and recommendations in this report are those which, in my opinion, are significant and best illustrate the work of my Office. The most significant recommendations are numbered and printed in bold type.

2.2 TREASURY

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.2.1 Consolidated Financial Statements of the Province - year ended March 31, 1989

The Province's 1988-89 consolidated financial statements are published in the public accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them. Section 3.4 of this report contains commentary on the consolidation methods used, together with selected consolidated operating statistics.

I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1989. My report thereon is reproduced in section 3.3 of this report.

Most of the figures that make up the Province's consolidated statements are audited during the annual audits of the various departments, funds and agencies that are consolidated. Observations and recommendations arising from those audits are reported in the ensuing sections of this report. The following observations and recommendations arose out of the audit of the consolidation process and the form of the consolidated statements.

Audit Observations

Pension liabilities — The Province continues to exclude from the calculation of its financial net worth (consolidated net assets) the full effect of the liability for future pension obligations.

In my 1987-88 annual report (section 2.2.1), I recommended that the Provincial Treasurer again consider reflecting as a liability in the financial statements of the Province the unrecorded liability arising from the various pension plans administered and/or guaranteed by the Province.

When responding to this recommendation, the Government stated that its current practice of disclosing pension obligations in a note to the financial statements provides complete information about the obligations and is consistent with the practice of most Canadian governments.

I acknowledge that the note to the financial statements provides some of the information required to understand the amount of, and the basis used to determine, the Province's unrecorded pension liability. However, even if the note provided all the information, notes and supporting schedules in financial statements "should not be used as a substitute for proper accounting treatment." This quotation is taken from a recommendation of the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants. It appears in Public Sector Accounting Statement - General Standards of Financial Statement Presentation for Governments (November 1986).

In November 1988, PSAAC issued a Public Sector Accounting Statement - Accounting for Employee Pension Obligations in Government Financial Statements. This Statement contains recommendations on accounting for pension obligations and related information. It supports my recommendation that pension obligations should be reported as a liability in the financial statements. The Government has stated that it will study PSAAC's pension accounting recommendations for their budgetary and financial reporting implications and their feasibility in the context of relevant legislation.

Including the full pension obligations as a liability at March 1989 would change the Province's consolidated net surplus of \$5,067 million at that date to a deficit of approximately \$3,500 million.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I again made the following recommendation:

Recommendation No. 1

It is recommended that the Provincial Treasurer include the unrecorded liability for pension obligations arising from the various pension plans administered and/or guaranteed by the Province as a liability in the financial statements of the Province.

Agencies not consolidated — In my last three annual reports, I recommended that the Provincially-owned universities, colleges, technical institutes and hospitals be included in the Province's consolidated financial statements.

Over the years, I have debated this issue at length with the Treasury Department. The Department chooses not to include these entities in the consolidated statements because they are autonomous, board-governed organizations in whose management and administration the Government has no involvement. It further notes that the Financial Administration Act does not require them to be consolidated.

I believe, however, that they should be consolidated. These organizations are Provincial agencies funded largely by the Province. They are owned by the Province and, as such, should be fully accountable to the Legislature. The Province appoints a majority of their board members and therefore can set and control policy, even though generally it has chosen not to do so. For the consolidated financial statements to show a complete picture of the Province's financial affairs, these entities should be reflected therein.

I had hoped that a pronouncement by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants would finally resolve this matter. But when in November 1988, PSAAC issued a Statement entitled Defining the Government Reporting Entity, it did not resolve the issue. The Statement contains recommendations for deciding which organizations should be accounted for by federal, provincial and territorial governments in their consolidated financial statements.

The Treasury Department believes that PSAAC supports its views. I believe, however, that it supports mine.

PSAAC recommends that "the government reporting entity should comprise the organizations which are accountable to the administration for their financial affairs and resources either to a minister

of the government or directly to the legislatures and which are owned or controlled by the government." It also stresses that accountability is the cornerstone for deciding which entities to consolidate. Accountable entities are those which receive their operating authority from their legislatures and are subject to accountability provisions, such as the requirement to submit annual reports containing audited financial statements. In my opinion, these criteria apply to the Provincially-owned universities, colleges, technical institutes and hospitals.

The two main criteria for determining whether or not an entity should be consolidated are "ownership" and "control." Essentially, PSAAC recommends that entities that are owned should be consolidated. Entities that are controlled should also be consolidated but only where the control is exercised. Provincial universities, colleges, technical institutes and hospitals are all Provincial agencies. As such they are owned, and control considerations therefore do not apply.

PSAAC's Statement mentions universities and hospitals specifically. It acknowledges that most universities and hospitals will not form part of the government reporting entity, but makes it clear that provincially-owned universities and hospitals should be included.

The official Government position, as stated in a report to the Public Accounts Committee in October 1989, is as follows:

The Government does not propose to include the board-governed universities, colleges, technical institutes and hospitals in the consolidated financial statements of the Province. The Government is of the opinion that the consolidated financial statements fully comply with the recommendation of the Public Sector Accounting and Auditing Committee (PSAAC) with respect to which organizations should be included in the government reporting entity.

In light of this response, I do not intend to pursue the matter further at this time. I have brought my concern to the attention of the Legislative Assembly and the Public Accounts Committee. I still believe that consolidated financial statements which do not reflect the above-mentioned organizations cannot present a complete picture of the Province's financial affairs.

2.2.2 General Revenue Fund - year ended March 31, 1989

The financial statements of the General Revenue Fund report the revenues and expenditures of the twenty-four government departments and the Legislative Assembly, including its three Legislative Officers, together with the financial assets and liabilities they administer.

Audit activities undertaken for each department and Legislative Office are reported in sections 2.2 to 2.26.

2.2.3 Treasury Department - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the procedures used by the Disbursement Control Division to monitor the transactions, activities and controls of government departments.
- An examination of the systems used by the Audit Division of Corporate Tax Administration.
- An examination of the procedures used to monitor the controls and activities of the financial institutions which hold the Province's securities and administer the Province's debt.
- An examination of the system used to measure and report on the performance of the Province's investments.

- A review of the system that processes information for the Province's published supplementary information report.
- An examination of the system used to issue cheques on the General Revenue Fund's bank account.
- An examination of the system used to control the Province's securities lending operations.
- An examination of the system used to monitor and collect delinquent debts.
- An examination of the system used by the Payroll and Pensions Division to verify the information contained in employers' annual reports on pension contributions and eligibility.
- An examination of the system used by the Budget Planning and Economics Division to prepare alternative proposals for funding pension obligations.

Audit Observations

Disbursement Control Division — The Division is not performing sufficient internal control compliance reviews, and is not including all types of payments within the scope of its daily reviews.

One of the responsibilities of the Disbursement Control Division, as defined in the Treasury Department's Accounting and Financial Control Manual, is to "monitor expenditure and disbursement transactions, on a pre-payment or post-payment basis depending on the sensitivity of transactions and the effectiveness of controls operated by the originator." The originators of transactions are the departments and provincial agencies subject to the disbursement control provisions of the Financial Administration Act. The Division discharges its monitoring responsibility by a combination of daily reviews of transactions and compliance reviews of systems.

It is the Disbursement Control Division's plan to perform annual compliance reviews to assess the effectiveness of controls operated by the originators of transactions. This goal is not being met. During the two years ended December 1988, only half of the entities subject to review were examined. This shortfall is more significant today because increased decentralization of documentation requires the Division to place more reliance on its internal control compliance reviews.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, I made the following recommendation:

Recommendation No. 2

It is recommended that the Disbursement Control Division of the Treasury Department establish the appropriate frequency for internal control compliance reviews of each entity that it monitors.

With respect to debt interest payments, debt repayments, investment purchases and payments on implemented guarantees, the Division is not performing daily reviews. The Division is relying instead on work done in 1987 by the internal audit section of the Department for assurance that controls over investment and debt transactions are currently adequate. To satisfy the requirements of the Financial Administration Act in respect of expenditures and disbursements, Disbursement Control needs to increase its monitoring of these material payments.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, it was recommended that the Disbursement Control Division of the Treasury Department include debt interest payments, debt repayments, and investment purchases and payments on implemented guarantees within the scope of its audit work.

Long-term disability costs — In my 1987-88 annual report (section 2.28.2), I commented on the way the Province accounts for future benefits payable under its long-term disability benefit plans.

Disability benefits are to some extent similar to pension benefits. They are payable in future years based on eligibility earned during current years. The value of disability benefits earned, therefore, should be accounted for as expenses of the years in which they are earned. This can be done by setting up, at the end of each fiscal year, a liability representing the actuarially computed current value of future benefits.

The Province does not set up liabilities for the current value of future disability benefits. It only records benefits as they are paid. At the conclusion of the 1987-88 audit, I recommended that liabilities be set up for employees who are currently receiving long-term disability payments and, where it can be estimated, for those who will receive them in future.

In a report to the Public Accounts Committee, the Provincial Treasurer undertook to consider this recommendation together with the broader issues raised by the recently issued recommendations on pension accounting by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

Not recording these liabilities is contrary to PSAAC's general reporting standards for the disclosure of information in government financial statements. PSAAC advises that such statements should include liabilities for "amounts owing for the cost of goods and services acquired such as accrued employee benefits."

The plans' independent adjudicator estimates that the liability at March 1989 for employees receiving benefits under the plans was approximately \$44 million.

Since the current value of future amounts payable for long-term disability benefits was not accrued in the Province's 1988-89 financial statements, I again made the following recommendation in a management letter to the Deputy Provincial Treasurer, Management and Control:

Recommendation No. 3

It is recommended that the Treasury Department record the full costs of the Long-term Disability Benefit Plans in the financial statements of the General Revenue Fund of the Province. This should include the liability for the future amounts payable to employees already receiving benefits under the Plans.

Most employees are not currently receiving disability benefits, but are eligible for benefits should a disability occur. It can be argued that the annual cost of remunerating these employees should include an estimate of the value to the employee (or the corresponding cost to the employer) of the disability coverage in place. Attributing the projected overall future cost of the Plans to the periods of employee service will likely require technical assistance from an actuary. In a management letter to the Deputy Provincial Treasurer, Management and Control, it was again recommended that the Treasury Department formulate a policy for accounting for the long-term disability costs associated with employees who may qualify for benefits in the future.

Corporate Tax Administration, planned audit coverage — The annual plan of the Corporate Tax Administration — Audit Division did not include an evaluation of the various risks of undercollection of tax revenues and overpayment of incentive program expenditures as a basis for the work to be performed. As a result, Corporate Tax Administration does not have the necessary assurance that work completed by its Audit Division is appropriate.

The Alberta Corporate Tax System is a self-assessing tax system and the tax returns prepared by taxpayers are their representations. Limited controls are exercised by the Assessments/Reassessments Divisions of Corporate Tax Administration. Reliance is placed on Revenue Canada

to check the accuracy of taxable income reported. Assurance that information supplied by the taxpayer is accurate and complete, particularly in relation to Alberta incentive programs and interprovincial allocation, must therefore be gained from field audits performed by the Audit Division.

The annual plan of the Audit Division should identify and assess the relative significance of all the risks involved; determine the nature and extent of audit coverage necessary to adequately address the risks; and determine if there are sufficient resources to do the work.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, I made the following recommendation:

Recommendation No. 4

It is recommended that Treasury Department's Corporate Tax Administration — Audit Division document clearly the rationale for its annual planning decisions on audit coverage.

In a response, the Department indicated satisfaction with its current audit coverage levels which, it pointed out, surpassed Revenue Canada's coverage. The relevance of this response will be examined during the next audit.

Public debt — Some forward exchange contracts put in place subsequent to the March 31, 1989 financial statement date are reflected in the financial statements as if they had been in existence at the year end. This treatment is not appropriate.

The purpose of these foreign exchange contracts is to hedge the Province's exposure to the impact of fluctuating exchange rates on foreign currency debt obligations. The hedge serves as protection against a possible loss, or preserves a profit.

As the purpose of the hedge is to eliminate the risk of future gains or losses, it should not affect the accounting for economic events that occurred before the Province entered into the hedge. If the Province is exposed to a possible gain or loss at the year-end, the financial statements should reflect this reality. Generally accepted accounting principles, however, permit the disclosure by way of note of events occurring subsequent to the year-end if they are important to users in their interpretation of the financial statements.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, I made the following recommendation:

Recommendation No. 5

It is recommended that the Treasury Department discontinue the policy of reflecting, in year-end financial statements, the accounting effects of forward exchange contracts entered into after the year-end date.

Treasury Department has responded with the view that its present policy is a conservative method of accounting. It is true that the accounting at March 31, 1989, resulted in an understatement of net income. However, had the prevailing exchange rates been different there might have been an overstatement of net income. I ask the Department to reconsider its view. Financial statements should faithfully represent the position at the reporting date. The notes to the statements may, however, be used to communicate information on subsequent events.

Investment performance reports — The content and clarity of investment performance reports prepared by Investment Management should be improved.

Investment Management administers approximately \$12 billion of investments for various funds. Reports on investment performance are prepared quarterly for senior management in the Treasury

Department. These reports are intended to contain comments and evidence which demonstrate the effectiveness of investment strategies in meeting the investment objectives of the various funds.

It was noted that comments on the achievement of a fund's investment objective are not always provided. Comments and evidence to demonstrate that established investment constraints had been adhered to throughout the reporting period were sometimes lacking. There was often very little analysis of differences between actual rates of return and independent performance indicators shown in the reports.

In a management letter to Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, it was recommended that Investment Management improve the content and clarity of its investment performance reports.

Fuel tax — In my 1987-88 annual report (section 2.28.2), I recommended that the Treasury Department treat as receivable at March 31, the fuel tax on all fuel oil deliveries made in March to retailers and bulk dealers.

At March 31, 1989, fuel tax receivable was reported correctly in the public accounts.

Pooled funds — During 1988-89, the Department created, without legislative authority, two regulated funds.

The Funds came into existence when certain assets of the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Pension Fund, the Ultimate Heir Trust Fund "B" and the Accident Fund under the Workers' Compensation Act were pooled. The pooling was done for increased efficiency in the management of these Funds' Canadian and United States equity investments.

Notwithstanding increased efficiency, the pooling resulted in two unauthorized funds. Following discussion with the Department, steps were taken to amend the Financial Administration Act and since August 1989, the Provincial Treasurer has had the authority to establish pooled funds. On September 29, 1989, the Provincial Treasurer, by Ministerial Order, established the Canadian Pooled Equities Fund and the United States Pooled Equities Fund.

Government Employees' Group Extended Medical Benefits Plan Trust and Government of Alberta Dental Plan Trust — In my 1987-88 annual report (section 2.28.2), I reported that these Trusts were not constituted validly.

Amendments to the Financial Administration Act, in August 1989, now authorize the Treasury Board to establish benefit funds for the purpose of providing benefits to plan participants. Accordingly, in a management letter to the Deputy Provincial Treasurer, Management and Control, it was recommended that these trust funds be constituted properly under the authority provided by section 93 of the Financial Administration Act.

2.2.4 Alberta Heritage Savings Trust Fund - year ended March 31, 1989

Audit Observation

The Auditor's Report on the financial statements of the Heritage Fund for the year ended March 31, 1989 was qualified.

The reason for the reservation of opinion is set out in the Auditor's Report and is as follows:

"The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate nor is the presentation in accordance with generally accepted

accounting principles. Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations. Although it has been interpreted by management that the Alberta Heritage Savings Trust Fund Act requires the disclosure of deemed assets on the balance sheet, the financial position of the Fund would be better understood if the deemed assets and deemed equity represented by deemed assets which both amount to \$2,913,373,000 were not included."

This is the third consecutive year that it was necessary to issue a reservation of opinion. Management of the Treasury Department continues to maintain that there are no generally accepted accounting principles appropriate for expenditures of this type.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue, it was again recommended that deemed assets and deemed equity represented by deemed assets be removed from the balance sheet of the Fund. The Auditor's Report will continue to be qualified until this matter is resolved satisfactorily.

In my view, an acceptable alternative treatment would be to have a note at the foot of the balance sheet which referred readers to the Schedule of Capital Projects Division Investments - Deemed Assets. In this way, readers would be alerted to the Fund's accomplishments.

2.2.5 Farm Credit Stability Fund - year ended March 31, 1989

Small Business Term Assistance Fund - year ended March 31, 1989

Audit Observation

Implemented guarantee payments — In my 1987-88 annual report (section 2.28.4), I recommended that implemented guarantee payments under the Small Business Term Assistance Fund and the Farm Credit Stability Fund programs be made only on the basis of completed formal agreements with lending institutions containing the precise terms of the Province's guarantee.

I am pleased to report that by the conclusion of the audits of the Funds, formal agreements had been signed by most of the lending institutions.

2.2.6 Land Purchase Fund - year ended March 31, 1989

Audit Observation

In my 1987-88 annual report (section 2.28.5), I reported that the Land Purchase Fund held land on which development had commenced. This practice is contrary to the normal practice of departments reimbursing the Fund from voted amounts for the cost of such land before development begins.

For the Fund to operate properly as a revolving fund, departments should reimburse it before any development work is done on its land. At March 31, 1989, the Department of Public Works, Supply and Services had still not reimbursed the Fund for such land that it was using. The cost of this land was approximately \$21.8 million.

Both the Treasury Department and the Department of Public Works, Supply and Services agree that budgeting for additional amounts should continue until all the land under development, but not under expropriation proceedings, is transferred from the Fund to Public Works.

The concern that departments are using Fund land prior to acquiring it has not been fully resolved. Therefore, in a management letter to the Deputy Provincial Treasurer, Management and Control, it was again recommended that budget estimates presented to the Legislative Assembly include sufficient amounts to enable departments to reimburse the Land Purchase Fund for land before development begins.

2.2.7 Treasury Branches Deposits Fund - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to estimate loan loss provisions.
- An examination of the systems used to manage credit risk.
- A further examination of the Fund's asset liability management.
- An examination of the use of the Fund's branch level accounting system to provide management information.

Audit Observations

Loan loss provisions — The Fund's systems for estimating loan loss provisions should be improved.

In my 1987-88 report (section 2.28.6), I reported that substantial audit adjustments to the loan loss provision were made in 1988 and the previous year. Adjustments were needed because of inadequacies in the system for considering specific losses on existing loans that were experiencing collection difficulties.

The estimated loan loss provision for 1989 was more accurate and, consequently, fewer adjustments to the provision were required. Several changes to improve the systems were made during the year. However, further enhancements to the systems for estimating loss provisions are required.

Guidelines for estimating available cash which could be collected from a debtor's operations and for estimating proceeds from the liquidation of the debtor's security could be improved. When non-performing loans are expected to be collected from the debtor's continued operations, improved guidelines are needed for estimating potential cash flow under restructured operations. The guidance should include requirements for business plans, financial reporting and other details appropriate in the circumstances.

Where loss provisions are to be based on values established through liquidation of security, there should be improved information on net realizable values. The need for comparable property sales information, when available, or current appraisal value of the security to be liquidated, should be stressed. Also, the guidelines should specify the approvals necessary when exceptions to established procedures are made.

Additionally, a system based on objective criteria could be used to establish a general provision for certain classes of small loans.

In a management letter to the Superintendent at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 6

It is recommended that the systems used by Treasury Branches to estimate loan loss provisions be improved.

Connected loans and potential liabilities — The Fund's information about loans and commitments which share common collateral is not adequate. Also, information on loan guarantees and letters of credit, which constitute potential liabilities, is not readily available.

Synergy, the Fund's comprehensive branch level accounting system, does not identify borrowers who are connected through shared collateral or earnings. Generally, the fact that accounts are

connected is discernable only by reviewing the branch files or in some cases regional office files. Although such information exists on these files, obtaining the information is difficult and time consuming.

Information on letters of credit and loan guarantees is not available on Synergy, but is maintained on branch records. Full information on commitments must, therefore, be assembled from listings submitted by branches.

In a management letter to the Superintendent at the conclusion of the audit, I made the following recommendation:

Recommendation No. 7

It is recommended that Treasury Branches establish a system for identifying all loans and commitments that share common collateral or earnings. It is also recommended that the Synergy system record information on loan guarantees and letters of credit.

Credit risk — The Fund's credit risk management systems are not yet adequate.

Credit risk management systems include procedures to set limits on amounts invested. Limits can be set in relation to loan types and classes. Loan type refers to a loan program and loan class to an industry classification. Within these categories there can be further limits depending on such factors as industry location and loan purpose.

Currently, management has set guidelines such as the directives restricting some commercial fixed rate lending and restricting the amount of loans issued to the hotel, motel and restaurant industry and for the purchase of used heavy equipment. However, limits for all types and classes of loans, and maximums for other categories have not been established.

In a management letter to the Superintendent at the conclusion of the audit, I made the following recommendation:

Recommendation No. 8

It is recommended that Treasury Branches establish, and regularly review, the maximum amount to be invested by loan categories to assist in the control of credit risk.

Loan interest capitalized — The Synergy loan system does not identify loans issued for the purpose of funding a borrower's interest payments.

Occasionally, the Fund issues loans to provide borrowers with funds to meet interest obligations on existing Treasury Branches loans. This practice, called capitalization of loan interest, may be an indication that a borrower is experiencing financial difficulty.

The Synergy system does not identify capitalized interest loans, although this information could assist management in assessing loan performance. The loan purpose code could be used to permit identification of such loans.

In a management letter to the Superintendent at the conclusion of the audit, it was recommended that Treasury Branches Synergy system identify loans advanced to pay interest on existing loans, to assist in the assessment of loan performance.

Asset liability management — In my 1987-88 annual report (section 2.28.6), I recommended that Treasury Branches management establish a maximum acceptable risk for interest term mismatch.

The primary objective of asset liability management is to reduce and manage risk in the event of changes in interest rates. A mismatch between the interest rollover date of deposit liabilities and the loans they are funding creates an interest rate risk, sometimes referred to as a gap. Management of asset and liability gaps for specific maturities plays a significant part in Treasury Branches' profitability.

I was pleased to note during the current audit that Treasury Branches management has set a limit for the amount of acceptable interest term mismatch.

Management Information System — Full use is not being made of the Fund's comprehensive branch level accounting system.

The Fund implemented a new system called Synergy to account for operations at the over 130 branch locations, and to provide head office management with information. The Synergy system is comprehensive and improves significantly management information. However, some parts of the system are not utilized to their full extent. For example, Synergy's capacity to identify loan characteristics, such as purpose of the loan, class or type, and primary and secondary collateral, is not used for all loans. Coding errors relating to loan purpose and class reduced the usefulness of information provided by Synergy.

In a management letter to the Superintendent at the conclusion of the audit, it was recommended that Treasury Branches use the primary and secondary collateral, loan class, and loan purpose fields on Synergy for all loans to identify the nature of loans and security.

Unclaimed balances — Since 1986, the Fund has taken into income unclaimed inactive balances that have been held beyond certain time limits. There is no statutory or contractual authority for this action.

In a management letter to the Superintendent at the conclusion of the audit, it was recommended that Treasury Branches obtain specific legislative authority for taking unclaimed balances into income.

Treasury Branches has undertaken to propose the necessary legislative changes when any future amendments to the Act are being considered.

2.2.8 Crown-Controlled Organizations

Crown-controlled organizations are defined by section 1(b) of the Auditor General Act. Essentially, an entity is Crown-controlled where more than 50% but less than 100% of its voting shares are owned by the Crown or where less than a majority of its members or directors can be appointed by the Government, but the entity is responsible for the administration of public-money or Crown assets.

Crown-controlled organizations operating during 1988-89 were:

North West Trust Company 354713 Alberta Ltd.

The Province's investment in North West Trust Company and 354713 Alberta Ltd. arose from a rehabilitation agreement concluded by the companies, the Province and the Canada Deposit Insurance Corporation, effective January 1, 1987. The agreement and investment provided North West Trust Company with an improved capital base and a framework to return it to viable operations. Under the arrangement, North West Trust Company has the right, subject to a maximum limit, to cause 354713 Alberta Ltd. to purchase, at book value, assets which are not providing a satisfactory return. These assets are to be managed, developed, marketed and sold in the normal course of business.

If the accounts of a Crown-controlled organization are audited by a person other than the Auditor General, then that person is obliged to comply with Section 16 of the Auditor General Act.

In accordance with section 16 of the Act, the firm that performed the December 1987 and 1988 audits of North West Trust Company and the March 1988 and 1989 audits of 354713 Alberta Ltd. delivered to the Auditor General copies of its reports to management and the audited financial statements. Also, the audit firm provided access to its working papers and full explanations of the extent of the audit work and the results obtained from that work.

Nothing has come to my attention during the review of the audit firm's working papers which, in my opinion, warrants the attention of the Legislative Assembly.

The Treasury Department is responsible for monitoring Crown-controlled organizations. In addition to the annual financial audit of the Department, my staff examined the systems used to monitor and report on the activities of Crown-controlled organizations.

Audit Observation

The Department has not documented the nature and extent of the monitoring it carries out for each Crown-controlled organization.

During the audit, it was concluded that an assessment of the monitoring systems could not be completed because the objectives and procedures for monitoring the performance of each Crown-controlled organization had not been documented.

Documentation of the objectives and procedures is necessary to ensure they are defined, to approve their adequacy, and to facilitate a common understanding. In other words, they assist in ensuring that rational and timely decisions can be made by the Department when the need arises.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, I made the following recommendation:

Recommendation No. 9

It is recommended that the Treasury Department establish and document its objectives and procedures for monitoring the activities of each Crown-controlled organization.

2.2.9 Financial audits of the following were also completed:

Alberta Capital Fund - year ended March 31, 1989

**Alberta Heritage Foundation for Medical Research Endowment Fund - year ended
March 31, 1989**

Alberta Heritage Scholarship Fund - year ended March 31, 1989

Alberta Municipal Financing Corporation - year ended December 31, 1988

Alberta Provincial Corporation Loan Fund - year ended March 31, 1989

Alberta Risk Management Fund - year ended March 31, 1989

Consolidated Cash Investment Trust Fund - year ended March 31, 1989

Pension Fund - year ended March 31, 1989

Public Trustee - Estates and Beneficiaries Trust Accounts - year ended March 31, 1989

Provincial Judges and Masters-in-Chambers Pension Fund - year ended March 31, 1989

Special Reserve Fund (Public Trustee) - year ended March 31, 1989

Treasury Revolving Fund - year ended March 31, 1989

Utility Companies Income Tax Rebates Fund - year ended March 31, 1989

391760 Alberta Ltd. - year ended March 31, 1989

2.2.10 Trust funds under Provincial administration are not included in the Province's consolidated financial statements because the Province has no equity in them. At March 31, 1989 trust funds under administration amounted to \$1.959 million. Summarized information of the funds making up this amount is provided in Note 9 to the consolidated financial statements.

Trust funds for which the Audit Office audits separate financial statements are reported on in sections 2.2 to 2.27 of this report. The following trust funds were treated as a group of similar entities and sufficient audit work was performed on the group to include it in Note 9 to the consolidated financial statements at March 31, 1989:

ADVANCED EDUCATION:

Advanced Education Endowment Funds
John Joseph Collett Memorial Scholarship Fund
E.R. Pendleton Estate Trust

AGRICULTURE:

Thomas Caryk Memorial Scholarship Fund
Claude Gallinger Memorial Fund
National Tripartite Price Stabilization Program Trust Account
Pennington Memorial Scholarship Fund
Stanley Shulhan Memorial Scholarship Fund
Wheat Board Money Trust Account
Woodgrove Unifarm Local Scholarship Fund

ATTORNEY GENERAL:

Land Titles Offices Trust
Maintenance Enforcement Trust
Various Courts and Sheriffs' Offices Trust

CONSUMER AND CORPORATE AFFAIRS:

Collection Practices Act Trust
Debtors Assistance Trust
Insurance Companies Trust
Orderly Payment of Debts
Securities Act Trust

CULTURE AND MULTICULTURALISM:

Fort Dunvegan Historical Society Trust Fund
Gakken Dinosaur Exhibit Trust Fund
New Canadian Encyclopedia Publishing Trust
C.O. Nickle Trust Fund
Turner Valley Gas Plant Trust Fund

EDUCATION:

Expo '86 Student Travel Trust Fund
Federal French Language Grants Fund
Mildred Rowe Weston Estate Trust
School for the Deaf Donations
School for the Deaf Pupils Trust

FORESTRY, LANDS AND WILDLIFE:

Junior Forest Warden Program Fund

HEALTH:

Various Institutions Trust Accounts

MUNICIPAL AFFAIRS:
Metis Settlement Associations Grants Administration Fund

PUBLIC WORKS, SUPPLY AND SERVICES:
Security Deposits Trust Fund

RECREATION AND PARKS:
International Youth Year - 1985 Trust Fund
1987 Western Canada Games Trust Fund

SOCIAL SERVICES:
Child Welfare Family Allowance Trust
Child Welfare Trust
Various Institutions Trust Accounts

SOLICITOR GENERAL:
Correctional Institutions Trust Accounts
Impaired Driving Initiatives Trust Fund

TREASURY:
Bond and Coupon Accounts:
Matured Interest
Unpresented Debentures
General Trust Account
A.L. Sifton Estate
Ultimate Heir Trust Fund "A"
Ultimate Heir Trust Fund "B"

2.3 ADVANCED EDUCATION

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.3.1 Department of Advanced Education - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the Department's information systems for determining the funding of capital assets at post secondary education institutions.
- An examination of legislation relating to Community Consortia.
- An audit of the National Training Agreement Certification of Costs claim for the year ended March 31, 1987 under a cost-sharing agreement between the Province and the Government of Canada.

Audit Observations

Community Consortia — Some public colleges are acting as agents for community consortia without legislative authority.

The community consortia were established in 1980 as part of a regional expansion decision of government. They are organized through the co-operation of post-secondary educational institutions and members of local communities for the purpose of providing educational programs. Each consortium offers courses to meet needs unique to its location. Colleges, universities, technical institutes,

vocational centres, and other agencies participate in delivering courses offered by the consortia. There are five consortia in the Province, each operated by a Board of Directors consisting of representatives of the participating post-secondary educational institution and representatives of the Regional Advisory Committee which in turn represents the interests of the community and the region.

Funding for community consortia originates from the Department of Advanced Education under the Assistance to Higher and Further Educational Institutions vote. The legal and financial affairs of the consortia are handled by public colleges nominated by the Minister of Advanced Education to act as administrative agents.

Based on review of various documentation and legislation on community consortia to determine their relationship with the colleges, it appears that Public colleges do not have the capacity to act as trustees for community consortia.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 10

It is recommended that the Department of Advanced Education seek legislative amendments to provide Colleges with the necessary authority to administer consortia.

Capital funding at post secondary education institutions — The Department's information systems used to support capital grant decisions should be improved.

The Department funds the fixed assets of public post secondary institutions through individually approved projects funded by the Alberta Capital Fund and through formula funding from the General Revenue Fund.

In order to identify capital funding needs, the Department must take into account the institutions' unexpended capital funds including reserves. Some institutions appear to have unexpended capital funds but have not allocated funds to reserves. Other institutions have established reserves but do not report their intended use. The inconsistent reporting by the institutions does not allow the Department to make informed funding decisions. The Department needs to know the purpose of reserves, how funds are transferred to and from reserves and how reserves will affect the need for future funding.

Information received from the post secondary institutions on certain existing fixed assets is the basis for formula funding as well as for some operating grants. However, the audit examination revealed apparent discrepancies in the reported information. For example, the recorded area and/or the recorded year of construction of some buildings changed, site inventories increased by the cost of repairs and maintenance, and the cost of furnishings and equipment purchased in a prior year increased without explanation. The Department had apparently not monitored these changes. It was not possible to determine the impact these matters had on the equity of funding to individual institutions.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the quality of the capital assets information used by its senior management to support grant decisions. Consequently, it was also recommended that the Department review its guidelines for reserves, excess equipment, and space measurement.

Strategy for funding computer equipment purchases — The Department should consider a distinct set of guidelines for the funding of computer equipment.

Computer equipment is funded through the formula funding grant intended to provide for the replacement of certain fixed assets over a ten year period. Computer equipment is subject to fast changing technology and is becoming more significant in the operations of post secondary institutions.

An independent 1987 report on the equity of funding of post secondary institutions recommended that "high priority should be given to a searching examination of computing capacity, costs and services throughout the Alberta post secondary system." The Department apparently intends to address these concerns but has yet to set the terms of reference for an examination.

Failure to develop appropriate information systems on computer assets may result in the Department inappropriately funding the post secondary institutions.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department obtain more information on computing capacity, costs, and services in the post secondary institutions. Following this, the Department should review, and if necessary amend, its strategy for funding computer equipment purchases by post secondary education institutions.

Investment of surplus funds — Legislative amendments to allow public colleges and technical institutes to invest in the Province's Consolidated Cash Investment Trust Fund have still not been effected.

In a management letter to the Deputy Minister at the conclusion of the 1987-88 audit, I recommended that the Minister seek amendments to the Colleges Act and the Technical Institutes Act to allow public colleges and technical institutes to invest in the Consolidated Cash Investment Trust Fund. This recommendation has been included in numerous annual reports including my 1987-88 report (section 2.4.1).

The Government has responded to the recommendation by stating that the necessary legislative amendments will be introduced as soon as the legislative schedule permits. Accordingly, I am not repeating the recommendation in a way that seeks a further formal response from the Government.

Financial reserves — Statutes under which higher education institutions operate allow them to establish financial reserves, but are not specific as to how transfers to reserves and expenditures from amounts previously appropriated to reserves should be approved and controlled.

In a management letter to the Deputy Minister at the conclusion of the 1987-88 audit, I recommended that the Department finalize procedures and guidelines for acquiring the information needed to facilitate the concurrence of the Minister to the establishment and utilization of financial reserves by higher education institutions. This recommendation was included in my 1987-88 annual report (section 2.4.1).

The Government has responded to the recommendation stating that it is a priority of the Department to approve policies and guidelines for the utilization of reserves and interfund transfers by public post secondary institutions. Accordingly, I am not repeating the recommendation in a way that seeks a formal response from the Government.

2.3.2 Students Finance Board - year ended March 31, 1989

In addition to the annual financial audit, my staff completed a further examination of the systems used by the Board to ensure that financial assistance provided to students is not in excess of their needs.

Audit Observations

Annual verification plan — In my 1987-88 annual report (section 2.13.1), I recommended that the Board develop a comprehensive plan for the annual verification of student loan applications. I also indicated that the Board was not evaluating the deterrent effect of its procedures.

The Board has taken several positive steps in respect of last year's recommendations. These include the proposed establishment of a permanent verification and audit unit. A statistical sampling approach was developed which will allow the Board to select awards for verification, evaluate the results, and measure the costs and benefits of each verification project.

The Board plans to analyze the results of its most recent verification to assist in the identification of high risk areas. I trust that the Board will ensure that adequate resources are made available to continue this very worthwhile verification activity.

Matching of payment data — In the 1988 fiscal year, overpayments were identified by matching data obtained from another government department with application data at the Students Finance Board. Overpayments by both entities amounted to approximately \$2.2 million. The Province recovered approximately \$600,000 of the overpayments.

I believe that a match for the 1989 fiscal year could have similar results.

Therefore, in a management letter to the Chairman of the Board at the conclusion of the audit, it was recommended that the Board match payment data from appropriate government departments with award data at the Students Finance Board for the 1989 fiscal year.

2.3.3 A financial audit of the **Students Loan Fund** was also completed for the year ended March 31, 1989.

2.3.4 UNIVERSITIES, RELATED ENTITIES AND THE BANFF CENTRE

The Provincially-owned universities, related entities and the Banff Centre operate under the authority of the Universities Act and the Banff Centre Act respectively. The financial statements of these Provincial agencies are not published in the public accounts, nor are they included in the Province's consolidated financial statements. I comment on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the aforementioned Acts, tables the audited financial statements of these agencies each year in the Legislative Assembly.

2.3.5 Athabasca University - year ended March 31, 1989

In addition to the annual financial audit, my staff completed a financial audit of the University's wholly-owned subsidiary company **Athabasca University Development Institute** for the period ended March 31, 1989.

Audit Observations

Annual audit — Management needs to review the extent of control and supervision of work necessary for the preparation of reliable and timely financial management information. Without such information, management risks loss of control over the financial affairs of the University.

In my 1987-88 annual report (section 2.4.5), I commented that the University was not prepared for the annual audit. Had the University been prepared, the audit could have been completed earlier and at less cost.

It is acknowledged that the University was better organized for the 1989 audit, and as a result the audit was completed earlier. However, there is still scope for improving the practices and procedures to be followed throughout the year in order to provide management with complete and reliable financial information.

A number of essential control procedures were not performed consistently and promptly during the year. These included the reconciliations which reduce the risk of management using incomplete

or inaccurate information. In a management letter to the University's President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 11

It is recommended that Athabasca University improve the supervision exercised by Financial Services over the preparation of financial management information.

Fixed assets — In my 1987-88 annual report (section 2.4.5), I repeated my concern that the University's systems for controlling and safeguarding fixed assets were inadequate. I am pleased to report that the previously reported deficiencies were rectified.

2.3.6 The University of Alberta - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the University to control investments and short-term deposits held in trust funds.
- An examination of the operations of the University's budget process.
- An examination of the systems used by the University to control expenditures in sponsored research and special purpose funds.
- An examination of the systems used by the University to control library assets.
- Financial audits for the year ended March 31, 1989, of the following companies:

Alberta Laser Institute

Alberta Telecommunications Research Centre

Centre for Frontier Engineering Research Institute

The Alberta Microelectronic Centre

Audit Observations

Bank reconciliations — The University did not reconcile promptly its general and payroll bank accounts to the general ledger. This means that management was exposed unnecessarily to the risk of loss of control over the financial affairs of the University.

When the year-end audit started, audit staff requested that preparation of the monthly reconciliations be made a priority. The reconciliations for the general and payroll bank accounts for the month ended March 31, 1989, were completed almost three months after the month-end.

Bank reconciliations are a fundamental element of any system of internal control, particularly in a complex environment such as the University. Failure to complete bank reconciliations promptly may allow errors or misappropriations to remain undetected.

In a management letter to the Vice-President (Administration) at the conclusion of the audit, it was recommended that the University complete promptly all bank reconciliations and that the reconciliations be reviewed and approved by senior management.

Trust funds investments — The University does not monitor formally compliance with its investment policies.

The Board of Governors of the University has approved investment policies and guidelines for various endowment funds. A draft policy for the Unitized Endowment Pool has also been prepared. The guidelines specify acceptable percentages in various types of investments and provide guidance for industry and corporate concentration. It is expected that transactions not conforming to the policy and guidelines be subject to proper approval of a Board committee. However, the University's Investment Office does not have formal monitoring procedures to determine if exceptions occur.

In a management letter to the Vice-President (Administration) at the conclusion of the audit, it was recommended that the University formalize procedures for monitoring compliance with approved investment policies.

Budget process — The University needs to analyze surpluses and deficits carried forward by departments and administration units.

University policy allows departments and administrative units to carry forward deficits and some surpluses from one fiscal year to the next. Deficits are considered to be a first charge against the next budget year. Because there are no procedures for ensuring that carried forward balances are dealt with promptly, it is possible that surpluses and deficits exist for more than one year.

In a management letter to the Vice-President (Administration) at the conclusion of the audit, it was recommended that analysis of carried forward balances be incorporated into the budget process. Departments and administrative units should provide plans for elimination of deficits and utilization of surpluses.

Sponsored Research and Special Purpose Funds -- Expenditures from these funds are not subject to the same level of internal control as expenditures from other funds of the University.

Expenditures of University operating or capital funds are subject to a system of internal control that includes approval of staff hired, verification of expenditure codes and budget control. These controls are not in place for sponsored research and special purpose funds, which are accounted for as trust funds under the control of a researcher or other trust account holder.

The University's chart of accounts consists of major, intermediate and minor codes. The major code indicates the type of account, for example, cash, accounts receivable, revenue or expenditure. The intermediate code identifies the specific account within the account type. Minor codes are generic to all accounts and indicate the nature of the expenditure, such as salaries, travel and supplies. The University uses the minor codes as an overall control for expenditures of sponsored research and special purpose funds. However, it does not verify minor codes initiated by the researcher. Unless minor account coding is accurate, this overall control is not effective.

In a management letter to the Vice-President (Administration) at the conclusion of the audit, it was recommended that all staff appointments under trust accounts be approved by an official independent of the trust holder, and that minor account coding of trust expenditures be reviewed for accuracy and consistent application.

Special accounts receivable — The University is not following up promptly the collection of its special accounts receivable.

Special accounts receivable relate to organizations which have a special relationship with the University and whose usage of the University's facilities, stores or physical plant is accounted for as if they were a part of the University.

At the year-end, a Provincially-owned hospital owed the University approximately \$2.5 million, of which \$800,000 had been outstanding for greater than 30 days. Audit confirmation of this balance led to a meeting between officials of the two organizations which resulted in a substantial amount of the outstanding balance being collected.

In a management letter to the Vice-President (Administration) at the conclusion of the audit, it was recommended that special accounts receivable be followed up promptly and that a subsidiary ledger of special accounts receivable be maintained to provide the necessary information.

Financial reporting and monitoring of subsidiaries and affiliated entities — In my 1987-88 annual report (section 2.4.7), I commented that the University needed to reduce its exposure to financial and legal risk associated with agreements to promote technology transfer. I recommended that the University employ control procedures, including checklists designed to minimize risk, prior to entering into initial and ongoing agreements to promote technology transfer.

The University has established an Affiliations and Spinoffs Start-up Committee comprised of representatives of the University's three Vice-Presidents. A checklist of procedures to be followed has been developed and the Committee is responsible for monitoring the procedures prior to the University entering into technology transfer agreements.

I also commented that the University should formally designate responsibility for monitoring and reporting on compliance with agreements to promote technology transfer. The University has delegated this responsibility to the Affiliations and Spinoffs Start-up Committee. I understand that the Committee will use sub-committees of qualified specialists to assist it.

I am pleased to report that the University is taking appropriate action to correct the deficiencies reported and I am satisfied with the progress made to date. I will continue to monitor progress in future audits.

Operating deficit — In my 1987-88 annual report (section 2.4.7), I reported that the University had created a deficit by appropriating funds from the operating account to Funds Appropriated for Specific Purposes. The University is no longer following this practice and therefore my previous recommendation is not repeated.

Fixed assets — The accuracy of the University's general ledger fixed asset accounts and equipment inventory records is still a matter of concern.

My last three annual reports have commented on the efforts made by the Capital Equipment Advisory Committee to improve the accuracy of the accounting and equipment records. Certain of the recommendations made by Internal Audit in 1987 have been evaluated and some progress has been made. However, I am still concerned that there may be a significant difference between the accounting and equipment records.

In a management letter to the Vice-President (Administration) at the conclusion of the audit, it was recommended that the Capital Equipment Advisory Committee continue with its efforts to improve the accuracy of the fixed asset and equipment records.

Monitoring payroll expenditures — In my 1987-88 annual report (section 2.4.7), I commented on deficiencies in the University's salary expenditure report.

Salary expenditure reports provide the basis for monitoring payroll expenditures by departmental managers and research account holders. The 1988 and 1989 audits revealed that information is not being received promptly by these users and that the budget information provided is not always accurate. In addition, in 1989 the report included commitments for a discontinued program.

Failure to supply accurate and timely information to those responsible for monitoring payroll expenditures may result in a loss of control over this large component of the University's expenditures.

In a management letter to the Vice-President (Administration) at the conclusion of the audit, it was recommended that the University Payroll Department and the Budget Division review the salary expenditure report to ensure that it provides the information required by users.

2.3.7 **The University of Calgary** - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the terms of reference and operations of the University's internal audit function.
- An examination of the University's control over compensating time-off allowed to certain employees who are not eligible to receive payment for overtime worked.
- A financial audit for the year ended March 31, 1989, of the University's wholly-owned subsidiary company, **The Arctic Institute of North America**.

Audit Observations

Internal Audit terms of reference and operations — The Internal Audit Department is operating in a generally satisfactory manner, however, some elements of the terms of reference could be clarified and some procedures could be improved.

In a management letter to the Vice-President (Finance & Services) at the conclusion of the audit, it was recommended that the terms of reference be clarified to expressly authorize access to the records, personnel and property of the University. It was also recommended that the Audit Committee receive the Internal Audit budget annually for information. Recommendations were also made regarding formalizing the annual work plan, performing follow-up reviews and extending the Department's reporting to the Audit Committee.

In response, the Vice-President has indicated that the University is in agreement with my recommendations.

Fixed asset disposals — In my 1987-88 annual report (section 2.4.6), I reported that University management needed to ensure that procedures to record the trade-in of equipment are followed. I also reported that major deficiencies noted during the physical verification of assets should be investigated and cleared promptly.

I am pleased to report that the previously reported deficiencies were rectified.

Compensating time-off — The University needs to improve control over compensating time-off.

The University has an overall statement of policy regarding compensating time-off, but it does not have procedures designed to ensure consistent application of the policy by University departments. Some departments are effective in the management of compensating time-off, while others are not.

Compensating time-off is used by the University departments to manage their salary costs. It allows staff to work overtime during peak work periods and bank the overtime until less busy times of the year when it can be used to take time-off. This policy allows departments to use their staff more effectively and to reduce overtime costs.

In a management letter to the Vice-President (Finance & Services) at the conclusion of the audit, it was recommended that each University department formalize its procedures for managing compensating time-off. These procedures should be a supplement to the University's overall statement of policy. It was also recommended that management develop procedures to monitor individual departments' adherence to these procedures.

2.3.8 **The University of Lethbridge** - year ended March 31, 1989

In addition to the annual financial audit, my staff completed an examination of the systems used by the University to control and report costs associated with capital construction projects.

2.3.9 A financial audit of **The Banff Centre for Continuing Education** was also completed for the year ended March 31, 1989

2.3.10 PUBLIC COLLEGES

The Provincially-owned public colleges operate under the authority of the Colleges Act. Although these colleges are Provincial agencies, their financial statements are not published in the public accounts, nor are they included in the Province's consolidated financial statements. I comment on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the Colleges Act, tables the audited financial statements of the Colleges each year in the Legislative Assembly.

2.3.11 Alberta College of Art - year ended June 30, 1989

Audit Observation

The College makes loans to employees without express statutory power.

The College has only those powers expressly given it by statute or those that may be reasonably inferred therefrom. The Colleges Act does not give the Board the express power to make loans such as those outstanding as at June 30, 1989.

The personal loans made by the College were for unspecified purposes. In addition, repayment terms were not specified and income tax implications were not considered.

In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, I recommended that the College obtain express statutory power to make loans to employees.

Recommendation No. 12

It is recommended that the Alberta College of Art refrain from making loans to employees in the absence of statutory authority.

In the management letter, it was also recommended that the College establish repayment terms for outstanding loans, which comply with the applicable income tax regulations.

2.3.12 Fairview College - year ended June 30, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the College to record, safeguard and report on its fixed assets.
- An examination of the procedures used by the College to record and verify the physical existence of fixed assets used by the North Peace Adult Education Consortium.
- An examination of the adequacy of, and compliance with, the College's Financial Administration Manual.

Audit Observations

Consortium — The College needs to improve its accounting for and safeguarding of the fixed assets of the North Peace Adult Education Consortium. In section 2.3.1 above, I have reported that colleges are acting as agents for community consortia without legislative authority.

The College acts as administrative agent for the North Peace Adult Education Consortium, and is considered to hold in trust the fixed assets acquired by the Consortium. College records of fixed assets were not in agreement, however, with those of the Consortium, and College staff were unable to account for the variance. No attempt has been made to reconcile the two records, and there has not been a physical verification of Consortium assets for several years.

The audit examination revealed that many recorded assets could not be located, and that values of some assets were different in the College and Consortium listings.

In a management letter to the President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 13

It is recommended that Fairview College ensure that fixed assets of the North Peace Education Consortium are accounted for and safeguarded adequately.

Livestock inventory — At June 30, 1989, the College owned livestock with a market value of \$230,410. This asset was recorded in the College's financial statements at a nominal value of \$1.

In my 1987-88 annual report (section 2.4.13), I reported that the College's practice of recording its livestock inventory at a nominal amount is disclosed in the notes to the financial statements. The practice is not, however, in accordance with generally accepted accounting principles, nor does it conform to the practice of other Alberta colleges. Recording inventory at nominal amounts has the effect of understating assets and distorting the results of the College's operations.

The proper accounting treatment is to record livestock inventory at the lower of cost and net realizable value. Notes to financial statements should not be used as a substitute for proper accounting treatment.

Accordingly, in a management letter to the College's President at the conclusion of the audit, it was again recommended that the College change its accounting policy and record livestock at the lower of cost and net realizable value.

Fixed assets — The College's systems are not adequate to record, safeguard and report on its fixed assets. College policy requires a physical count of fixed assets to be performed every two years, however, no count has been done since 1986. Verification of a sample of assets by audit staff was hampered by some assets not being tagged, or by incorrect serial numbers or asset locations shown in the records. In addition, assets designated to be auctioned were not properly controlled and recorded.

In a management letter to the President at the conclusion of the audit, it was recommended that the College improve its procedures relating to the control and accounting for fixed assets.

2.3.13 Grant MacEwan Community College - year ended June 30, 1989

In addition to the annual financial audit, my staff examined the systems used by the college to control the operations of educational consortia, and to safeguard the assets which, as administrative agent, the College holds in trust for consortia.

Audit Observation

In my 1987-88 annual report (section 2.4.14), I recommended that College staff become more involved in the preparation of annual financial statements and supporting schedules. I am pleased to report that significant improvements were made by College staff in producing timely and complete financial information, including the preparation of interim and 1988-89 year-end financial statements. My previously related concern was, therefore, eliminated.

2.3.14 **Lakeland College - year ended June 30, 1989**

Audit Observations

Federal Sales Tax refunds — The College's practice of capitalizing all costs incurred on construction projects with no reduction for federal sales taxes refunded does not comply with generally accepted accounting principles. Balances for capital assets and equity in capital assets at June 30, 1989 are each overstated by \$399,575 representing federal sales tax refunds received.

In a management letter to the President at the conclusion of the audit, it was recommended that the College comply with generally accepted accounting principles by reducing the recorded cost of capital assets by the amount of related federal sales tax refunds.

Deferred revenue — The College's current practice is to recognize income earned and to record expenditure incurred on courses, projects and programs only on completion.

Since many of these courses, projects and programs commence during one fiscal year and are not completed until the following or a subsequent year, the revenues and expenses are deferred, in some cases for more than one year.

This method of accounting impacts revenue and expenditure in the year of deferral and in the year of completion. The cumulative impact to June 30, 1989, is approximately \$253,000.

In a management letter to the President at the conclusion of the audit, it was recommended that the College revise its procedures for recording deferred revenue to ensure that results of operations are properly disclosed.

2.3.15 **Lethbridge Community College - year ended June 30, 1989**

The annual financial audit was not complete as at the date of this report. The College was not as well prepared for the audit as in previous years with the result that the audit work was ongoing until late December.

I will report any significant observations from the 1989 annual financial audit and additional work in my 1989-90 annual report.

2.3.16 **Mount Royal College - year ended June 30, 1989**

Audit Observation

Accounting for and control over fixed assets is inadequate.

To assist in the control of fixed assets, management required College departments to review fixed asset listings and identify disposals. The quality of the reviews done by departments was questionable. Audit tests indicated that the value of reported fixed assets was substantially misstated. As a result, management reduced the value of fixed assets by \$500,000.

In a management letter to the President at the conclusion of the audit, it was recommended that the College verify regularly the accuracy of the fixed asset register and review procedures for recording asset transfers and disposals.

2.3.17 Olds College - year ended June 30, 1989

Audit Observation

In my previous annual report (section 2.4.16), I commented that the 1988 financial audit was not complete as at January 3, 1989, and the College had not dealt appropriately with standard year end procedures.

I am pleased to report that as a result of the College's efforts, the 1989 financial audit was completed on time.

2.3.18 Red Deer College - year ended June 30, 1989

In addition to the annual financial audit, my staff examined the controls exercised by the College over the sale and distribution of tickets, and receiving and depositing of cash for the Arts Centre.

2.3.19 Financial audits of the following were also completed for the year ended June 30, 1989:

Grande Prairie Regional College
Keyano College
Medicine Hat College

2.3.20 TECHNICAL INSTITUTES

The Northern Alberta Institute of Technology, the Southern Alberta Institute of Technology and Westerra Institute of Technology all operate under the Technical Institutes Act. Although they are Provincial agencies, their financial statements are not published in the public accounts nor are they included in the Province's consolidated financial statements. I comment on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the Technical Institutes Act, tables the audited financial statements of the institutes each year in the Legislative Assembly.

2.3.21 Northern Alberta Institute of Technology - year ended June 30, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the systems to plan for the acquisition and use of computer equipment and software and determine accountability for expenditures in this area.
- An examination of the system to provide information on furnishings and equipment.

Audit Observations

Computer processing plan — The Institute needs to expand its plans to include all aspects of computer related expenditures.

The Institute has prepared recently its first strategic computer plan which provides an excellent rationale for the acquisition of major central computer resources over the next three years. However, other expenditures on computer equipment, such as those relating to microcomputers and software, are not considered. The Institute has acquired microcomputers at the rate of approximately 200 a year since 1984, at a total cost of \$4.5 million.

The plan indicates that a reserve, which amounted to \$2.3 million at June 30, 1989, will be adequate to finance central computer acquisitions in the next three years. However, it does not indicate whether formula funding and future reserves will be adequate for the replacement of all other items of computer equipment. The original cost of computer equipment is over \$12 million.

In a management letter to the President at the conclusion of the audit, it was recommended that the Institute expand its Computer Processing Plan to include the rationale and proposed funding for all computer and related expenditures.

Computer software — The Institute should account for and safeguard computer software in accordance with its fixed asset policies.

Computer software comprises computer coding and programs required to operate the Institute's computers and to process specific applications. The Institute has many such programs, both purchased and developed internally, for instructional use and administrative purposes.

Computer software is not accounted for in accordance with the Institute's fixed asset guidelines which require that assets costing over \$500 be capitalized, including assets developed within the Institute.

Significant computer software has been acquired for instructional and administrative purposes. The cost of purchased software in each of the last two fiscal years was approximately \$400,000 of which at least 50% meets the definition of a fixed asset. The Institute does not record the cost of internally developed software.

The Institute does not have a record of its inventory of computer software to assist in managing the allocation and use of existing software, and to plan for enhancement and replacement.

In a management letter to the President at the conclusion of the audit, it was recommended that the Institute account for computer software in accordance with its fixed asset policies, and develop procedures for maintaining an inventory of these assets.

Capital Equipment Register — The register does not provide all of the information necessary to account for and control fixed assets. The Capital Equipment Register assists in the management of fixed assets costing more than \$46 million, by providing information for physical control and replacement planning.

Parts of the register, which allow for information such as quantity, additional cost and replacement year are not used. An asset type code is not entered for all assets and the register does not provide other types of information such as source and year of funding which must be prepared manually. This information is required to support formula funding applications. Also, the register does not record the last date of physical verification to indicate that the existence and location of all equipment is verified in accordance with Institute policy.

Data input to the Capital Equipment Register is not reviewed to determine its accuracy, and a number of equipment codes are invalid.

In a management letter to the President at the conclusion of the audit, it was recommended that the Institute improve the Capital Equipment Register to provide comprehensive information on fixed assets.

2.3.22 **Southern Alberta Institute of Technology** - year ended June 30, 1989

The annual financial audit was not complete as at the date of this report. The Institute was not as well prepared for the audit as in previous years with the result that the audit work was ongoing until late December.

I will report any significant observations from the 1989 annual financial audit and additional work in my 1989-90 annual report.

2.3.23 A financial audit of the **Westerra Institute of Technology** was also completed for the year ended June 30, 1989.

2.4 **AGRICULTURE**

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.4.1 **Department of Agriculture** - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the basis for selecting the grant recipients whose operations are examined each year by the Department's field inspection staff.
- An examination of the adequacy of the controls in place to administer the Canada-Alberta Livestock Drought Assistance Program and Canada-Alberta Greenfeed Program.

Audit Observation

If the Department intends the Alberta Agricultural Development Corporation to keep its Lambco Division, it should obtain proper legislative authority for it to do so, and improve accountability to the Legislative Assembly for Lambco's operations.

Lambco is a meat-processing plant in Innisfail, Alberta which was originally owned by the Lamb Processors Co-op Ltd. Under a 1977 agreement between the Co-op and the Province, the Corporation acquired the plant and has operated it since as its Lambco Division. The agreement requires the Province to reimburse the Corporation for Lambco's operating losses and certain capital expenditures. It also requires any disposal proceeds in excess of the Corporation's funding investment in Lambco to be paid to the Province.

In the years that followed, the Corporation provided funding to cover Lambco's operating losses and capital expenditures. In more recent years, however, Lambco has reported profits and, by March 1988, the Corporation had fully recovered its funding investment out of Lambco's earnings. On its

March 1989 balance sheet, Lambco's net assets were valued at approximately \$1.9 million, of which approximately \$1.3 million was cash.

Lambco's legislative status is somewhat unusual. Its expenditure estimates are not reviewed by the Legislative Assembly, its profits are not included in the Province's consolidated surplus, and accountability is confined to summary information in a note to the Corporation's annual financial statements. Furthermore, I have a legal opinion which concludes that the Corporation does not have adequate statutory legislative authority to operate its Lambco Division.

It was understood from the beginning that the Corporation's ownership of Lambco was to be temporary and that once Lambco was financially viable it would be sold. For this reason, and because each year my staff were informed that the sale of Lambco was imminent, I have withheld from including concerns in my annual reports. However, because of the delay in disposing of Lambco, and because of the Division's increasing cash surpluses, I am now bringing my concerns to the attention of the Legislative Assembly.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 14

It is recommended that if Lambco is to continue to be operated by the Alberta Agricultural Development Corporation, the Department of Agriculture obtain proper legislative authority for that purpose and ensure full accountability for Lambco's operations.

2.4.2 Alberta Agricultural Development Corporation - year ended March 31, 1989

In addition to the annual financial audit, I issued an auditor's report on the separate financial statements of Lambco, a division of the Alberta Agricultural Development Corporation, for the year ended March 31, 1989.

Audit Observation

Loans made to employees under the Corporation's Computer Purchase Plan lack appropriate legislative authority.

The Computer Purchase Plan is designed to increase the computer-literacy of the Corporation's staff. Under the Plan, the Corporation makes loans to employees to enable them to purchase their own personal computers. The loans bear interest and are repayable within three years. At March 1989, about 75 employees were participating in the plan and outstanding loans exceeded \$200,000.

Based on enquiries made before implementation, Management believed there was adequate authority to operate the Plan. Following discussions during the audit, however, I obtained a legal opinion which concludes that the Corporation does not have the capacity to provide loans to its employees for this purpose. Accordingly, although the Plan's purposes are laudable, the loans are ultra vires the Agricultural Development Act.

On receiving the legal opinion, I issued a supplementary management letter to the Corporation's President and Managing Director in which I recommended that the Corporation seek proper legislative authority if it wishes to make further loans under the Computer Purchase Plan.

Recommendation No. 15

It is recommended that the Alberta Agricultural Development Corporation refrain from making loans to employees under its Computer Purchase Plan unless or until it has the legislative authority to do so.

2.4.3 Alberta Hail and Crop Insurance Corporation - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the management and financial controls in a computer-based claims administration system that was implemented during 1988-89, and the controls exercised during the system's development and data conversion phases.
- An audit of the Province's 1988-89 cost-sharing claims under the Canada-Alberta Crop Insurance Agreement.

Audit Observations

New computer systems — The Corporation needs to adopt better ways of developing and implementing new computer systems.

During 1988-89, the Corporation implemented a new computer-based system which was developed to administer indemnity claims. Following implementation, a number of problems were experienced which might have been avoided had a more controlled development process been used.

The systems development and implementation process was characterized by a general lack of documentation and user involvement. For example, no separate project steering committee or similar group was established to co-ordinate the project and represent the various user groups throughout the design and data conversion phases. There were no documented systems specifications to indicate agreement with the system design. There was little user involvement in system testing and no final agreement by users that the system met their needs or was operating to their satisfaction. And finally, no user manual was prepared to describe the system's functions and user interaction.

Since I understand that more new systems are planned for the future, it was recommended in a management letter to the General Manager that the Corporation improve its methodologies for developing and implementing new computer-based systems.

The General Manager has acknowledged that the Corporation's system development methodology has been less than desirable, due largely to time and manpower constraints. He also indicated that the Corporation's overall systems steering committee will become more active in future, and that project sub-committees of affected departments will be formed when further system development is undertaken.

Financial and legislative control — The Corporation needs to improve the effectiveness of its financial and legislative controls.

The annual audit revealed numerous instances where financial and legislative controls were absent, inoperative or were exercised too late to be effective. For example:

- Certain indemnity claims lacked proper approval and, in some cases, the control over approved claims was inadequate.
- Procedures for recording and controlling premium revenue adjustments, and refunds and cash received were inadequate.
- Claims and premiums processed through the claims and premiums systems were not reconciled regularly to the total accounts in the general ledger. Some adjustments to the general ledger bypassed the claims and premiums system but were not grouped separately to enable amounts processed through the sub-systems to be reconciled.
- Payroll and fixed asset total accounts in the general ledger were not reconciled to the related sub-systems.

- Control over claims under the Wildlife Support Program was inadequate.
- Insurance elections were accepted after the April 30 deadline, even though this is not allowed by legislation.
- Premiums charged to some farmers in high risk areas were in excess of the maximum allowed by legislation.

The numerous control deficiencies and inaccuracies, and delays in producing schedules in support of the financial statements, delayed the annual audit and increased its cost. In a management letter to the General Manager at the conclusion of the audit, a number of recommendations were made which, in summary, called on the Corporation to improve its financial controls and to adhere to its legislative authorities.

2.4.4 Alberta Terminals Ltd. - year ended July 31, 1988

In addition to the annual financial audit, my staff completed an audit of the financial statements of the Company's wholly owned subsidiary **Alberta Terminals Canola Crushers Ltd.**

2.4.5 Financial audits of the following were also completed:

Alberta Agricultural Research Institute - period ended March 31, 1989

Alberta Dairy Control Board - year ended March 31, 1989

Crop Reinsurance Fund of Alberta - year ended March 31, 1989

Irrigation Land Manager - year ended March 31, 1989

Livestock Identification and Brand Inspection Fund - year ended March 31, 1989

Livestock Patrons' Assurance Fund - year ended March 31, 1989

Stray Animals Act Fund - year ended March 31, 1989

The Horned Cattle Purchases Act Trust Account - year ended March 31, 1989

2.5 ATTORNEY GENERAL

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.5.1 Department of the Attorney General - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Calgary and Red Deer Provincial Courts to control and safeguard court exhibits.
- An examination of the systems used by the Department's Financial Services Branch to control payroll changes.
- An examination of the system used by the Public Trustee Branch to monitor the rate of return earned on investments.
- An examination of compliance with established control procedures of a selection of estate files maintained by the Department's Public Trustee Branch.

- An audit of the Province's 1987-88 and 1988-89 claims for financial support from the Government of Canada for programs and services for victims of crime.

Audit Observation

The Department needs better procedures for ensuring the accuracy of the financial information reported in connection with the trust accounts it administers.

At fiscal year-ends, the Department reports to the Treasury Department the assets and liabilities of the trust accounts it administers. These figures are then aggregated with trust figures reported by other departments and agencies, and appear in a footnote to the Province's consolidated financial statements.

Included in the trust assets reported at March 31, 1989 was a term deposit valued at \$1,620,140 by the issuing financial institution. However, the annual audit revealed, and the financial institution later agreed, that the term deposit should have been valued at \$1,062,140.

When the Department receives valuations from financial institutions, it checks their approximate accuracy by reference to the original purchase price. A more reliable way would be to calculate the value by reference to the original price, the date of purchase, and the rate of interest earned.

In a management letter to the Acting Deputy Attorney General at the conclusion of the audit, it was recommended that procedures used to prevent misstatement of year-end trust assets be improved. The Department has since indicated that year-end reporting instructions will be revised and that valuation reporting standards will be established for term deposits. The effectiveness of these measures will be assessed during future audits.

2.5.2 **The Alberta General Insurance Company** - year ended December 31, 1988

Audit observation

Unless the Company takes appropriate action, it will become liable to pay federal corporation tax in 1990.

The Company is administered by staff of the Department of the Attorney General. Except for one policy covering certain government property, the Company has ceased operating. Its assets at December 1988 were valued at \$500,000, and consisted mainly of an interest bearing cash deposit. The interest earned on this deposit is responsible for the profit recorded by the Company each year.

Unlike most Provincial agencies, the Company is not exempt from federal corporation tax. Until now, however, no tax has been payable because annual profits have been off-set against accumulated tax losses from prior years. These losses, however, are almost used up and, unless action is taken, tax will be payable in 1990.

One way of avoiding paying tax would be to transfer the surplus cash out of the Company, thereby reducing or eliminating its interest income. However, the Alberta General Insurance Company Act does not allow the Company to distribute its surpluses, except by way of reduced premiums.

Accordingly, in a management letter to the Company's General Manager at the conclusion of the audit, it was recommended that amendments to the Act be sought to allow the Company to distribute its surplus funds. The General Manager has since indicated that a paper is being prepared seeking a decision on the Company's surplus funds and taxation status.

2.5.3 Financial audits of the **Chattel Security Registries Assurance Fund** and the **Registrar's Assurance Fund** were also completed for the year ended March 31, 1989.

2.6 CAREER DEVELOPMENT AND EMPLOYMENT

Of the matters reported to management at the conclusion of the audit of the **Department of Career Development and Employment** for the year ended March 31, 1989, none warrant inclusion in this report.

2.7 CONSUMER AND CORPORATE AFFAIRS

Of the matters reported to management at the conclusion of the audit of the **Department of Consumer and Corporate Affairs** for the year ended March 31, 1989, none warrant inclusion in this report.

2.8 CULTURE AND MULTICULTURALISM

Of the matters reported to management at the conclusion of the Department's audits, the observation below was selected for inclusion in this report.

2.8.1 **Glenbow-Alberta Institute** - year ended March 31, 1989

In addition to the annual financial audit, separate audits were also completed of the financial statements of the Glenbow Foundation and Luxton Museum Ltd.

Audit Observation

My report on the 1988-89 financial statements of the Institute contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Institute receives donation revenue which is not susceptible of complete audit verification.

2.8.2 Financial audits of the following were also completed:

Alberta Multicultural Commission - period ended March 31, 1989

Culture and Multiculturalism Revolving Fund - year ended March 31, 1989

Department of Culture and Multiculturalism - year ended March 31, 1989

The Alberta Art Foundation - year ended March 31, 1989

The Alberta Foundation for the Literary Arts - year ended March 31, 1989

The Alberta Foundation for the Performing Arts - year ended March 31, 1989

The Alberta Historical Resources Foundation - year ended December 31, 1988

The Government House Foundation - year ended March 31, 1989

2.9 ECONOMIC DEVELOPMENT AND TRADE

Of the matters reported to management at the conclusion of the Department's audits, the observations below were selected for inclusion in this report.

2.9.1 **Department of Economic Development and Trade** - year ended March 31, 1989

In addition to the annual financial audit, my staff completed an examination of the management and financial controls used by the Department to administer grants, loans and investments funded out of Votes 3 and 5, and non-program guarantees.

2.9.2 **Alberta Intermodal Services Ltd.** - year ended December 31, 1988

Audit Observation

In my 1987-88 annual report (section 2.11.2), I described the difficulties experienced when a new computer system acquired by the Company was modified and implemented. I recommended that, in future, the Company exercise better management control when developing and implementing new computer systems.

Implementation of the system was completed in late 1988 and the Company's General Manager and Chief Executive Officer has confirmed that my recommendation will be complied with when systems development work is next undertaken.

2.9.3 **Alberta Opportunity Company** - year ended March 31, 1989

Audit Observation

In my 1987-88 annual report (section 2.11.3), I recommended that the Company improve the usefulness of its annual financial statements by including more detailed information on operating expenses. I am pleased to report that management improved significantly the form and content of the 1988-89 financial statements, and eliminated my previously reported concern.

2.9.4 Financial audits of the **Alberta Motion Picture Development Corporation** and the **Motion Picture Development Fund** were also completed for the year ended March 31, 1989.

2.10 **EDUCATION**

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report:

2.10.1 **Department of Education** - year ended March 31, 1989

In addition to the annual financial audit, my staff examined the administration of, and the systems used to control, contributions to the Teachers' Retirement Fund.

2.10.2 Financial audits of the following were also completed:

Education Revolving Fund - year ended March 31, 1989

Northland School Division No. 61 - year ended August 31, 1988

School Foundation Program Fund - year ended March 31, 1989

Teachers' Retirement Fund - year ended August 31, 1988

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.11.1 Department of Energy - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the system used by the Department to monitor the accuracy of oil and gas production information used to calculate and verify oil and gas royalties, mineral taxes and related incentives.
- An examination of various components of the system used to verify the calculation of natural gas and by-products royalties. These included the systems used to verify exemptions and gas and by-products information, to assess compliance with the Alberta Average Market Price regulations, and to verify and control gas injection data and gas cost allowance claims.
- An examination of the systems used to plan and control the work of the Department's Mineral Revenues Division Field Audit Unit.
- An examination of the systems used by the Department to calculate crude oil royalties, mineral taxes and related incentives.
- An examination of the policies and operating procedures used by the Department for collecting and recording cash.
- An examination of the system used by the Department to control retroactive royalty adjustments.

Audit Observations

Oil and gas production data — The Department, in conjunction with the Energy Resources Conservation Board (ERCB), needs to continue to improve the reliability of the oil and gas production data used to calculate oil and gas royalties.

In my last three annual reports, I recommended that the Department obtain better assurance that the production data supplied by ERCB is accurate enough to verify royalty calculations. I am pleased to report that during 1988-89, ERCB made considerable progress in developing systems and procedures that can provide the Department with oil production data that is suitable for its purposes. In addition, efforts have begun to address the Department's needs related to gas production data. However, both ERCB and the Department recognize that further improvements are required. These include procedures to:

- determine the effect on royalties of inaccurate reporting by oil and gas producers,
- keep ERCB apprised of how accurate the various production data it produces needs to be, and to
- improve the usefulness of the conclusions expressed by ERCB on production data.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 16

It is recommended that the Department of Energy continue to work with the Energy Resources Conservation Board to develop systems and procedures which provide assurance that oil and gas production information is sufficiently accurate for calculating oil and gas royalties.

Gas price verification — The Department should continue to improve the systems used to calculate the Province's natural gas royalties. In my last two annual reports, I commented on difficulties experienced by the Department in verifying the selling prices reported by royalty payers. These prices are important because royalties are calculated on either the selling price or 80% of the Department's published Alberta Average Market Price, whichever is the greater. The Department, therefore, must be alert for situations where royalty is calculated on selling prices that are below 80% of the Alberta Average Market Price.

To address these difficulties, the Department is developing a system which is scheduled to be implemented in 1990. The system will compute selling prices based on the information on royalty returns received by the Department from producers. The prices computed will be compared with the prices reported by purchasers of natural gas and by-products.

Computed prices that differ significantly from the prices reported by purchasers will be subjected to desk audits by the Department's Validation Unit. This will involve requesting further documentation from the producer in support of the selling price. Desk audits, however, will be unable to detect all types of error. As discussed below, this exposure should be considered by the Department's Mineral Revenues Division Field Audit Unit when determining the extent of its work.

The new system will not operate efficiently until the data it uses to compute selling prices is reliable. A review of the data revealed significant errors in the volume numbers that will be used in the computation.

Pending implementation and the effective operation of the new system, I again made the following recommendation in a management letter to the Deputy Minister at the conclusion of the audit:

Recommendation No. 17

It is recommended that the Department of Energy improve its gas royalty verification procedures so that instances where gas selling prices are less than eighty per cent of the Alberta Average Market Price are promptly identified and investigated. In addition, the Department should continue to develop procedures for verifying promptly the reported selling prices on which royalties are calculated.

Injection schemes — In my 1986-87 and 1987-88 annual reports, I commented on the need for a system to monitor the royalty status of gas that is injected into, and later recovered from, the Province's petroleum and natural gas wells. Without such a system, the Department cannot be sure that it is collecting all the royalty to which the Province is entitled. Considerable volumes of gas are injected into wells to enhance production and maintain proper production practices. Some of this gas has borne royalty (at various rates), and some of it has not. When companies calculate royalty payable on gas subsequently produced by these wells, they take into account the volumes and royalty status of gas previously injected into the well. Without a system that records and monitors the gas previously injected, the Department is unable to assess how accurately gas production is classified on the monthly reports received by the Department with royalty payments.

During 1988-89, the Department implemented an Injections Volume Reporting system. This system monitors the volumes and royalty status of gas and gas by-products injected into and recovered from injection wells. However, where injected volumes have not borne royalty when originally produced, the system is currently unable to determine if the volumes should be subject to royalty at the time of injection. In addition, the system does not reconcile properly the volumes reported by the royalty payer with those reported by the injection scheme operator.

I am pleased to acknowledge that the Department's new Injections Volume Reporting system resolves many of my previously reported concerns in this area. With regard to my residual concerns, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department continue to develop its Injections Volume Reporting system so that gas and gas

by-products subject to royalty at the time of injection are identified. It was further recommended that the system should, in all significant cases, support the reconciliation of volumes reported by royalty payers with those reported by injection scheme operators.

Royalty holidays — The Department has not investigated all instances where producers may have reported incorrectly gas production as being from exempt royalty holiday wells.

In my 1987-88 report, I stated that the Department lacked procedures for detecting and investigating instances where producers incorrectly report gas production as being exempt from royalty. I recommended that it establish procedures for investigating instances where gas volumes available for sale exceed production from royalty exempt wells.

The Department has since introduced a report which compares volumes of gas available for sale with production on royalty holiday wells, and identifies anomalies. The report deals with production from wells with unexpired royalty holidays. The report, therefore, satisfies my concern as it relates to continued monitoring. However, it does not address the current refiling of returns for wells with expired royalty holidays, nor does it address old returns for expired and unexpired royalty holiday wells. As a result, there is a risk that royalty holiday may be claimed on production from wells that is not covered by the report.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department review royalty holiday returns relating to wells with expired royalty holidays, and investigate instances where gas volumes available for sale have been incorrectly reported as being from royalty holiday wells.

Gas cost allowances — In my 1987-88 annual report, I stated that the Department needed procedures for detecting and investigating instances where gas cost allowances have been allocated incorrectly to reduce the amount of royalty paid to the Province.

I am pleased to report that procedures have now been implemented which resolve my concerns in this area.

Mineral Revenues Division Field Audit Unit — Better planning, operating guidelines and information sharing could improve the effectiveness of the Division's Field Audit Unit.

The Department's Mineral Revenues Division operates a Field Audit Unit. The Unit is responsible for auditing gas royalty returns submitted to the Department, claims for relief from costs incurred on enhanced oil recovery schemes, and other filings. To do this, field auditors visit a number of royalty payers each year to check for compliance with royalty and incentive regulations.

The extent of audit work carried out by field auditors varies considerably from audit to audit. This is partly because of the differing circumstances encountered, and partly because field auditors seek differing levels of audit assurance. Policies and operational guidelines are needed to define the appropriate and consistent levels of audit assurance to be obtained. Otherwise, there is a risk of over or under-auditing.

In addition, audit planning could be improved by collecting and assessing evidence from the best available sources. Field Audit Unit auditors could make better use of the information available in other units of the Division, particularly the analytical reports produced by the Validation Unit.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department provide its field auditors with guidelines for determining the extent of audit work to be carried out. It was also recommended that planning documents be prepared for field audits and that methods be found for sharing information with the Mineral Revenues Division's Validation Unit. The Department has since agreed to adopt these recommendations.

Crude oil royalty, mineral revenue tax and related systems — During the 1988-89 audit, my staff examined the systems used to calculate crude oil royalty, mineral revenue tax and related incentives. This examination was designed to assess the validity of management's assertions that these systems have appropriate controls and produce reliable information. Except for the concerns referred to above under the heading Oil and Gas Production Data, the examination concluded that these assertions were valid.

2.11.2 Alberta Oil Sands Technology and Research Authority - year ended March 31, 1989

Audit Observation

During 1988-89, some of the contracts entered into and research payments made by the Authority did not comply with legislative requirements.

The Authority operates under the Oil Sands Technology and Research Authority Act, and regulations and by-laws issued thereunder. It carries out and provides funding for development and research projects for the recovery and upgrading of oil sands and heavy oils, and enhanced recovery processes. The Authority's 1988-89 expenditures exceeded \$29 million, almost all of which were grants.

The following were among the concerns observed during the audit:

- Section 3 of the Oil Sands Technology and Research Authority Regulations requires the Authority to enter into formal contracts for research and to pass Board resolutions before it advances funding. These requirements were not complied with in September 1988 when funds totalling \$545,000 were advanced. The contract was not signed until the following month and Board approval was not obtained until a month after that. A similar breach of the regulations occurred in 1987 and was commented on in my 1987-88 annual report (section 2.13.2).
- In October 1988, the Authority advanced \$29,000 to The University of Alberta, again without proper legislative authority. The advance was to allow a research team to continue with its activities until a new source of research funds could be arranged. Although funding research projects is within the Authority's mandate, supporting non-project research activities is not.
- Section 15 of the Act requires the Authority to obtain the Lieutenant Governor in Council's approval for contracts entered into with agencies of the Federal and Provincial governments. In some cases, this requirement was not complied with.
- Section 6.8(a) of the Authority's by-laws requires special Board approval for all contracts. Such approvals, however, were not always obtained for contracts relating to international activities. They were instead approved by the Chairman and Vice-Chairman, with no subsequent ratification by the Board.

In a management letter to the Chairman of the Board at the conclusion of the audit, I made recommendations to address each of the above concerns. These are summarized in the following recommendation:

Recommendation No. 18

It is recommended that the Alberta Oil Sands Technology and Research Authority refrain from disbursing research funding in a manner which does not accord with its legislation.

2.11.3 Financial audits of the following were also completed:

Alberta Petroleum Incentives Program Fund - year ended March 31, 1989
Alberta Petroleum Marketing Commission - year ended December 31, 1988
Natural Gas Pricing Agreement Act Fund - year ended December 31, 1988
Natural Gas Pricing Agreement Market Development Fund - year ended December 31, 1988
Take-or-pay Costs Sharing Fund - year ended December 31, 1988

2.12 ENVIRONMENT

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report.

2.12.1 In addition to the annual financial audit of the **Department of the Environment** for the year ended March 31, 1989, financial audits of the following were also completed:

Alberta Environmental Research Trust - fifteen months ended March 31, 1989
Alberta Special Waste Management Corporation - year ended March 31, 1989
Environment Council of Alberta - year ended March 31, 1989
Surface Reclamation Fund - year ended March 31, 1989
Water Resources Revolving Fund - year ended March 31, 1989

2.13 EXECUTIVE COUNCIL

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.13.1 **Department of Executive Council** - year ended March 31, 1989

In addition to the annual financial audit, audits were completed of numerous federal cost-sharing claims by Alberta Public Safety Services under the Joint Emergency Planning Program.

2.13.2 **The Wild Rose Foundation** - year ended March 31, 1989

Audit Observations

The Foundation is paying grants for purposes and in amounts which appear not to be authorized by the Wild Rose Foundation Act and Regulation.

The Foundation has initiated a volunteer development initiatives program. Section 3 of the Act, however, limits the Foundation's activities to providing funding to volunteer organizations that provide community services to Albertans. Under the program, the Foundation has been directly and indirectly involved in volunteer recognition, training and development.

Program activities undoubtedly promote volunteer development. However, they appear to be beyond the Foundation's legislatively approved scope of activities which, as stated above, is restricted to providing funding to volunteer organizations that provide community services. In January 1989, an

effort was made to provide retroactive authority for these activities by means of a Ministerial Directive. It was ineffective, however, because ministerial directives can provide priorities and guidelines within the mandate of the Foundation; they cannot expand that mandate.

It also appears that some of the grants paid under the program have contravened the Act or the Regulation. The Regulation limits grants paid to organizations to the lesser of \$50,000, or the amount raised by the organization through community fund raising. It also states that an organization is eligible to receive a grant not more than once every three years.

Despite this, the Foundation approved a three year grant commitment to an organization totalling \$200,000, \$120,000 of which is payable in 1990-91. It is acknowledged that the Foundation can pay grants in excess of the \$50,000 limit if approved by the Minister, but no such approval could be located. Furthermore, the Foundation is committed to providing annual funding to several other organizations.

In discussions with Management, it was clear that the Board believed that it was operating within the Foundation's legislation. Accordingly, in a management letter to the Foundation's Chairman at the conclusion of the audit, I made the following recommendation:

Recommendation No. 19

It is recommended that The Wild Rose Foundation review the activities of its volunteer development initiatives program and ensure that expenditures thereunder are in compliance with the Wild Rose Foundation Act and Regulation.

Follow-up of grants paid — The Foundation is responsible for obtaining assurance that the grants it pays are used for the purposes intended. To this end, each grant recipient is required to provide the Foundation with a project completion report within 60 days of the agreed project completion date.

During 1988-89, about eighty per cent of project completion reports were received late. Furthermore, the Foundation was not following-up late reports promptly. Receiving project completion reports on time, and following-up promptly those that are late, would improve the Foundation's chances of identifying and recovering unspent or wrongly spent grant monies.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that procedures be developed to encourage the timely submission of project completion reports and to follow-up those that are late. The Chairman has since responded that timelines for pursuing delinquent reports have been tightened.

2.13.3 The Workers' Compensation Board - year ended December 31, 1988

Audit Observation

In my 1987-88 annual report (section 2.8.2), I noted that inaccuracies in calculating compensation payments to injured workers were resulting in substantial overpayments. I recommended that operational procedures be revised to ensure that the information used is complete and accurate. I also recommended that the extent of past overpayments be determined and the potential for recovery investigated.

Since then, the Board has initiated a full review of the operating procedures used to determine earnings data and to calculate compensation. It has also begun to investigate past compensation payments to identify situations where overpayments may be recoverable. At the conclusion of the audit, however, this work was ongoing. No conclusions had been drawn and no proposals for strengthening operating procedures had been developed. The 1988 audit, however, revealed fewer overpayments than the 1987 audit.

In a management letter to the Chairman of the Board at the conclusion of the audit, it was recommended that management continue to review the adequacy of the procedures used to calculate compensation payments, and the accuracy of information used in those calculations. It was also recommended that efforts to identify recoverable overpayments continue.

2.13.4 A financial audit of the **Energy Resources Conservation Board** was completed for the year ended March 31, 1989.

2.14 FEDERAL AND INTERGOVERNMENTAL AFFAIRS

Of the matters reported to management at the conclusion of the Department's audit, none warrant inclusion in this report.

2.14.1 **Department of Federal and Intergovernmental Affairs** - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to ensure that employee attendance records are complete and properly authorized, and that employee performance is appraised periodically as required by Personnel Administration Office guidelines.
- An examination of the procedures used by the Department to monitor the operations of the Province's foreign offices for compliance with expenditure control guidelines.

2.15 FORESTRY, LANDS AND WILDLIFE

Of the matters reported to management at the conclusion of the Department's audits, the observation below was selected for inclusion in this report.

2.15.1 **Department of Forestry, Lands and Wildlife** - year ended March 31, 1989

Audit Observation

The Department has no method of ensuring that all exported lumber originating in Alberta is properly identified and reported to Revenue Canada. As a result, it cannot be sure that Alberta is receiving the timber export charge to which it is entitled.

In January 1987, the Canadian government imposed a 15% charge on softwood lumber leaving Canada for the USA. The charge is based on the value of lumber leaving the production mill. Exporters are required to remit payment of charges with their monthly reports to Revenue Canada which detail the volumes and value of lumber shipped and its province of origin. Based on the information submitted, Revenue Canada apportions and pays this revenue to the respective provinces, after deducting an administration fee.

Lumber often changes hands several times, from producer through a succession of brokers, before being exported. Much of Alberta's lumber is stored temporarily in reload centres in various other provinces before being moved over the border.

From January 1987 to August 1989 inclusive, Revenue Canada paid export charges to Alberta totalling \$44.7 million. Based on the information provided to the Department by a lumber trade association, this amount could have been millions of dollars greater. It is possible that much of the Province's lumber is being identified mistakenly as originating from British Columbia or other provinces.

In December 1987, the Province of British Columbia obtained exempt status for lumber originating in that Province. Therefore, lumber produced in British Columbia is not subject to the 15% export charge. Accordingly, if Alberta lumber is misclassified as originating in British Columbia, the export charge is avoided. The result of this would be a reduction in the Province of Alberta's revenues.

I acknowledge that since February 1989, Department officials have been investigating ways to identify and monitor the export of Alberta softwood lumber.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 20

It is recommended that the Department of Forestry, Lands and Wildlife develop ways of monitoring exports of softwood lumber originating in Alberta to determine if the Province is receiving the timber export charges to which it is entitled.

2.15.2 Financial audits of the following were also completed:

Fish and Wildlife Trust Fund - year ended March 31, 1989

Forest Development Research Trust Fund - year ended March 31, 1989

Forestry, Lands and Wildlife Revolving Fund - year ended March 31, 1989

2.16 HEALTH

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.16.1 **Department of Health - year ended March 31, 1989**

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by Alberta hospitals to ensure that only persons registered with the Alberta Health Care Insurance Plan receive hospital services free of charge.
- An examination of the Department's 1988 Annual Report in order to determine whether the Report's contents are supported adequately.

Audit Observations

Health unit funding — In my 1987-88 annual report (section 2.8.1), I recommended that the Department obtain sufficient information on the activities and programs of health units to enable it to determine if the funding provided is appropriate.

The Department indicated that the development of health indicators, program standards, and improved data collection would assist in resolving concerns raised. It has made limited progress on this long-term project.

It is only when each unit receives appropriate funding based on health indicators, program standards, and data on programs delivered that the total funding provided to all units could be said to be appropriate. In the interim, some of the known inequities in the allocation of funds might be eliminated by redistributing the total funds available.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 21

It is recommended that the Department of Health develop health indicators and program standards for health units to determine appropriate funding levels for each health unit.

Recovering health unit surpluses — In my 1987-88 annual report (section 2.8.1), I recommended that the Department obtain adequate information from health units to enable it to identify and recover any accommodation and capital grants that are refundable to the Department.

I reported the instance of a health unit that had prepared two sets of financial statements. The set submitted to the Department did not disclose an accumulated surplus of \$650,000. I expressed concern that financial statements which report only part of a unit's activities can be misleading. The Department has not yet completed investigating the propriety of certain arrangements made by this health unit and reviewing the validity of claims against the refundable grants provided to the unit.

I also indicated that two other health units had surpluses which should have resulted in a refund of certain grants under existing legislation. As the amounts involved were small, the Department waived their recovery. However, neither the Public Health Act nor the Regulations for the health units provide any authority to the Department to waive these amounts.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department complete its investigation of the financial arrangements of the health unit which had the two sets of financial statements. It was also recommended that the Department comply with the Act and Regulations with respect to the waiver of refundable grants.

Services provided at hospitals — There are no checks by the Department that services at hospitals are provided free of charge only to people registered with the Alberta Health Care Insurance Plan.

Hospitals provide services free of charge to health care registrants unless those services are recognized by hospitals as being chargeable to third parties such as The Workers' Compensation Board. These free of charge services are provided if registrants produce their Alberta Health Care Card or later telephone the hospital with their registration number. There is, however, no confirmation that the person receiving the service is registered at the time the service is provided. Validity could be established if the hospitals had the ability to check registrations with records of the Alberta Health Care Insurance Plan. This is not yet possible. A pilot project is, however, underway to examine the feasibility of providing others with access to the Department's registration database.

Hospitals provide data to the Department of Health on inpatients, but not for outpatients. The inpatient data that is submitted is not current. Moreover, the Department does not establish, from the information already submitted by hospitals, that services were provided free of charge only to persons registered with the Alberta Health Care Insurance Plan.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 22

It is recommended that the Department of Health consider changes in its systems and procedures to ensure that hospital services are provided free of charge only to patients who are registered with the Alberta Health Care Insurance Plan.

Claims from physicians for services performed at hospitals - There are no procedures to check that fee-for-service claims by physicians for services provided to patients at hospitals agree with the hospital records submitted to the Department of Health.

Physicians submit fee-for-service claims to the Department for patients treated at hospitals. These claims are not checked against the hospital records provided to the Department, to establish if the claims are appropriate. Such checks could provide assurance on the reliability of a significant amount of payments under the fee-for-service system. It would, however, be necessary for physicians to indicate the location where the service was provided.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 23

It is recommended that the Department of Health verify practitioners fee-for-service claims for services provided at hospitals with the records submitted by hospitals.

Hospitalization charges recoverable from The Workers' Compensation Board — There are deficiencies in checking that hospital costs payable by the Board are identified and charged to the Board.

Certain types of hospitalization costs are recoverable from The Workers' Compensation Board. However, there are deficiencies in checking that all instances where the Board should be recharged are identified and billed. The Department of Health already recovers significant amounts from the Board for fee-for-service claims. If the Department compared these fee-for-service claims charged to the Board against the hospital patient records provided to the Department, it should identify instances where hospitals failed to bill the Board. This could increase revenues of hospitals and result in a reduction in grant support payments.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 24

It is recommended that the Department of Health require hospitals to recover all amounts that are the responsibility of The Workers' Compensation Board.

Computer systems at hospitals — In my 1987-88 annual report (section 2.18.1), I recommended that the Department prepare, and communicate to hospital administrators, a strategic plan for co-ordinating the development of computer systems by hospitals.

The Department has now established an Alberta Hospitals Information Technology Advisory Council which includes representatives from hospitals. The Council's responsibilities include formulating a strategic direction for information technology and recommending guidelines for computer hardware and software acquisitions and for computer systems development.

The formation of the Council is the first step in co-ordinating the development of computer systems at hospitals. However, significant work is still required to develop a strategic plan.

The plan should address how the Department intends to encourage hospitals to make use of proven systems already developed and implemented by other hospitals in Alberta. It needs to consider which hospital operations can be assisted by computer systems and how the Department intends to advise and assist hospitals in implementing or enhancing their computer systems.

The ways in which the Department intends to monitor computer initiatives undertaken by hospitals and the criteria the Department will use to evaluate hospital requests for funding computer initiatives should be included in the plan.

I acknowledge that the Department has also taken steps to inventory computer systems at hospitals. As my concerns have not yet been fully resolved, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department continue to work with hospital administrators to prepare a strategic plan for co-ordinating the development of computer systems by hospitals.

Information on hospital operations — In my 1987-88 annual report (section 2.18.1), I recommended that the Department improve its computer systems to provide better information regarding hospital activities than is currently provided by the Institutional Reporting Information System.

Department management has indicated that the existing system will be replaced by a system that will accept Management Information System data from hospitals. The Department has also indicated that the replacement system will address deficiencies that exist with the current system.

As the Department is taking steps to replace the Institutional Reporting Information System, my recommendation is not being repeated.

Documentation supporting grant payment decisions — In my 1987-88 annual report (section 2.18.1), I recommended that the Department revise its documentation standards in order to improve the quality of information used in making grant payment decisions.

Although the Department has made adjustments, deficiencies reported in my 1987-88 annual report have still not been fully resolved.

Budget files maintained for each hospital do not have a structure or format that assists the staff in maintaining appropriate documentation to support grant payment decisions. Some files reviewed during the year did not contain documentation to substantiate the reasons for changes in funding to certain hospitals.

Insufficient guidance is provided on the documentation required to support Expenditure/Transfer Authorities forms which are signed to approve and pay grants to hospitals.

Reviews of hospital surpluses and deficits are now being performed, however, there is no documentation of action taken as a result of these reviews.

The nature and extent of in-depth reviews by Departmental staff of additional grants to hospitals with funding problems is documented inadequately.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department revise its documentation standards in order to improve the quality of information used to support grant payment decisions.

Relationship with the Medical Practice Audit Committee — In my 1987-88 annual report (section 2.18.1), I recommended that the Department improve its system for supporting the work of the College of Physicians and Surgeons, and obtain information from the Medical Practice Audit Committee and the Registrar of the College regarding the disposition of each review of the services provided by medical practitioners.

The Department has procedures for monitoring and controlling payments to medical practitioners and for identifying, in conjunction with the Committee, instances of abuse. I am pleased to report that the Department has implemented procedures to follow-up all reviews undertaken by the Department and referred to the Committee.

However, the Department can further facilitate the work of the Committee by providing the College with a history of profiles generated for physicians under review. The Department is enhancing its computer systems to allow this but implementation of the enhancements has been delayed due to insufficient information being available from another of its computer systems.

As all my concerns have not yet been resolved, in a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department improve its system for supporting the work of the Medical Practice Audit Committee of the College of Physicians and Surgeons. Progress on the Department's effort to facilitate the work of the Committee will be monitored during future audits.

Profiles for non-medical practitioners and registrants — In my 1987-88 annual report (section 2.18.1), I recommended that the Department extend its system for producing and reviewing profiles to all non-medical practitioners and registrants.

Practitioner profiles show patterns of billings by practitioners while registrant profiles show patterns of use of the health care system by registrants.

I am pleased to report that the Department has established a Registrant Profile Unit to address issues concerning patterns of health care use by registrants of the Health Care Insurance Fund. The Department is also making progress in enhancing the system for producing and reviewing profiles of non-medical practitioners. Progress will be monitored during future audits.

Annual Report of the Department — The Department of Health needs to determine the objectives of its annual report and have procedures to make sure the information included in the report is reliable.

A review of the objectives of the annual report is particularly important now that the report will cover an expanded Department. Reviews by my staff of the drafts of the 1988 report disclosed errors and inconsistencies. Detailed information on hospitals and nursing homes was eliminated because of concerns that the information was unreliable.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department assess the objectives of its annual report and implement procedures to ensure that only reliable information is included.

2.16.2 Health Care Insurance Fund - year ended March 31, 1989

In addition to the annual financial audit, my staff examined the control exercised by the Department over the implementation of a new registration, eligibility and premium billing computer system.

Audit Observations

Claims — The Department's fee-for-service claims systems are not satisfactory and result in over-payments and under-recoveries. These deficiencies were originally identified in the 1984-85 Report of the Auditor General and reported on in my 1987-88 annual report (section 2.18.2).

The Department's Internal Audit Branch continues to audit a significant number of claims processed for payment. Once again, the Branch's annual report projected significant overpayments and under-recoveries of claims paid. For the 1988-89 year the projections amount to approximately \$4.4 million (1987-88 \$4.8 million).

These projected overpayments result from inappropriate use of manual override codes by clerical staff, inappropriate application of the Schedule of Medical Benefits, and inadequate computerized validation of claims. Under-recoveries result from inadequate procedures to identify and recover claims that are The Workers' Compensation Board's responsibility.

I acknowledge that the Department is reviewing the cost effectiveness of changes to the present systems and is also developing a new claims processing system. However, the Department has not yet implemented new procedures that would prevent inappropriate payments or under-recoveries of claims. Annually, the overpayments and under-recoveries continue to be significant; over time, when accumulated, they should represent cause for considerable concern. It is important that effective action be taken with a sense of urgency.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 25

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Health improve its systems in order to reduce inappropriate claim payments and to ensure that all claims that are the responsibility of The Workers' Compensation Board are recovered.

Reciprocal agreements — Alberta has entered into reciprocal agreements with most provinces and the Yukon Territory for the provision of medical services. However, the Department has not signed reciprocal agreements with the Northwest Territories and the Provinces of Saskatchewan and New Brunswick. Without such agreements, the provision of services to residents of these jurisdictions may contravene the Alberta Health Care Insurance Act.

The absence of an agreement with the Province of Saskatchewan has resulted in a dispute over the reimbursement of fees paid to Alberta practitioners providing services to residents of Lloydminster, Saskatchewan. The Fund pays the physicians at Alberta rates but the Province of Saskatchewan repays the Fund at lower Saskatchewan rates. As a result, the Province of Saskatchewan owed the Fund approximately \$291,000 at July 31, 1989 which the Fund may have difficulty collecting.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 26

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Health sign reciprocal agreements with all participating provinces and territories for the provision of services to non-residents.

Optional Health Services Program administration costs — The Department needs to reassess the conditions for payment of administration costs and recovery of interest revenue from the Alberta Blue Cross Plan.

Alberta Blue Cross administers the optional health services program on behalf of the Department without a current agreement. The agreement, which expired in December 1982, provided for a continuation of services on a month to month basis.

During 1988-89, the Fund paid approximately \$8 million in administration costs to Alberta Blue Cross. This was an increase of 26% over the previous year, even though the number of optional health services contracts administered by Alberta Blue Cross remained relatively unchanged from the previous year. Moreover, payments were made for expenses which were not specifically provided for in the expired agreement. Also, the Alberta Blue Cross Plan does not reimburse the Fund for interest earned on money held temporarily in its operating account until the claim cheques it issues on behalf of the Fund are presented for payment.

The Fund's agreement with Alberta Blue Cross should clearly define the conditions for payment of administrative expenses and recovery of interest revenue.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 27

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Health formalize an agreement for the services to be provided by the Alberta Blue Cross Plan.

Signatures on Claims Forms — The Department of Health is not obtaining signatures from practitioners or authorized persons on all claim forms and computer tape submission forms for claims received on magnetic tapes.

The signature requirement may seem onerous, but acts as a deterrent against the submission of inappropriate claims. One reason that the Claims for Benefits Regulation under the Alberta Health Care Insurance Act requires practitioners or authorized persons to sign all claims is that where an improper claim is alleged, the Department can prove the intent of the claimant.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department ensure compliance with the Claims for Benefits Regulation which requires practitioners or authorized persons to sign all claims submitted for payment.

Verification of claims for premium assistance — The Department needs to review its procedures for minimizing the risk of premium subsidies being granted to ineligible registrants.

Eligibility for premium assistance is based on applicants' taxable income in the preceding taxation year. The subsidy forms signed by the registrants provide the Department with authority to confirm income with Revenue Canada. As reported in my 1987-88 report, it is important that the Department gain reasonable assurance that applicants provide correct information.

Premium assistance of approximately \$35 million was provided in the year ended March 31, 1989. Due to the significance of the amount involved, in a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department improve its procedures for approving premium assistance applications to minimize the risk of subsidies being provided to ineligible registrants.

Optional Health Services Program Claims — The Department needs to improve procedures over payment of claims for the optional health services program. These deficiencies were originally identified in the 1984-85 Report of the Auditor General and reported on in my 1987-88 annual report (section 2.18.2).

For 1988-89, the Fund reimbursed Alberta Blue Cross approximately \$113 million for optional health services claims it paid on behalf of health care registrants. While the Department has improved its control over reimbursements to Alberta Blue Cross since the matter was first reported, little action was taken in 1988-89 to resolve the deficiencies which still exist.

The 1988-89 audit disclosed that the Department still does not check that claims reimbursed to Alberta Blue Cross related to registrants who were insured for optional health services when the services were provided. Again, some discrepancies were noted where Alberta Blue Cross was reimbursed for services provided to registrants not insured for optional health services.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department improve its procedures to ensure that reimbursements to the Alberta Blue Cross Plan are valid and relate only to registrants insured for the optional health services program.

Registration, Eligibility and Billing System — There were certain deficiencies in the new registration, eligibility and billing system implemented during the year.

Many deficiencies related to unresolved problems identified in discrepancy reports, some of which were regarded as being critical. Others arose as a result of the implementation of the new computer system, correction of numerous errors which arose during the conversion of the old registration data into the new computer system, and a lack of adjustment of certain types of revenue records on retroactive cancellations of registrations.

Differences between the accounts receivable amounts generated by the new computer system and those maintained by the accounting section, had to be manually investigated. Also, security concerns relating to the use of an outside data centre for processing the registration and billing records were highlighted by a consultant but not all were resolved.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department take action to correct deficiencies and irregularities noted during the development, implementation and operation of the new registration, eligibility, and premium billing system.

2.16.3 A financial audit of the **Alberta Alcohol and Drug Abuse Commission** was also completed for the year ended March 31, 1989.

2.16.4 HOSPITALS

The Provincially-owned hospitals and their related foundations, other than the Alberta Children's Hospital Foundation, operate under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals, University Hospitals Foundation and Mental Health Acts. The financial statements of these Provincial corporations are not included in the public accounts, nor are the entities reflected in the consolidated financial statements of the Province. I comment on this matter in section 2.2.1 of this report. The Minister of Health, who is charged with the administration of the above Acts, is required to table annually, copies of the audited financial statements of these hospitals.

2.16.5 **Alberta Children's Provincial General Hospital** - year ended March 31, 1989

In addition to the annual financial audit, my staff completed an examination of the financial and budgetary systems used by the Hospital to control and allocate funding.

Audit Observations

Computer systems — In my 1987-88 annual report (section 2.18.5), I recommended that the Hospital analyze the benefits and costs of its plans for moving the financial information and statistical reporting systems to its own computing facility from service bureau facilities. I also recommended that the Hospital review the adequacy of its computer hardware and develop a comprehensive plan for the future development of computer systems.

The Hospital hired consultants to assist in reviewing its computer plans and decided not to move its financial systems to its own computing facility. It has also drawn up a strategic plan to address various issues arising from the weaknesses reported. As the Hospital is taking action to address the matters reported, the recommendation is not repeated. Progress will be monitored during future audits.

Budgetary process — Each Hospital department has a different system to record and evaluate information needed for planning.

The lack of consistent and integrated information makes it difficult for the Hospital to undertake overall long-term planning. The Hospital has also not assessed its programs in relation to its mission to determine if the programs are still relevant and appropriate. Budget requests are not supported by information about activity levels, and different measurement statistics are used by departmental administrators in planning program changes. Annual budget decisions made by the Board often consist of adjustments to previous funding levels, and do not consider the appropriateness, level of activity, and cost of each program.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital reassess the information provided to the Board and its committees so that appropriate information is made available to enable the Board to discharge its mandate.

2.16.6 Alberta Hospital Ponoka - year ended March 31, 1989

In addition to the annual financial audit, my staff completed an examination of the systems used by the Hospital to measure and report on its success in achieving the Hospital's mission statement.

Audit Observation

In my 1987-88 annual report (section 2.18.3), I commented on the need for hospital boards to receive adequate information in order to discharge their responsibilities. The examination at Alberta Hospital Ponoka was carried out to follow-up on this observation.

The examination showed that the Hospital has systems to develop departmental objectives and standards based on the Hospital's mission statement. Controls exist to ensure compliance with the standards. Problems in achieving compliance with the standards are reported to management and the Board.

The Hospital has demonstrated good initiative in developing these systems and reporting procedures. The follow-up examination identified that information provided to the Board could be further improved by measuring and reporting the extent of the Hospital's success in meeting its overall goals. These goals, which form part of the Hospital's mission statement, are much broader than the departmental goals presently being monitored. Such reports would give the Board a clearer understanding of success in achieving its mission.

The possibility of enhancing the Hospital's measurement and reporting processes by focusing on the Hospital's overall goals was discussed with the Executive Director at the conclusion of the audit.

2.16.7 Alberta Urban Hospitals Project Management Ltd. - period ended February 7, 1989

Audit Observation

The procedures for winding down the Project and the Project Company were deficient.

The Department was responsible for construction of two urban hospitals, the Grey Nuns Hospital in Edmonton and the Peter Lougheed Centre in Calgary. The hospitals were completed during the year and are now operated by hospital boards.

Project staff indicated that certain legal documents transferring title of a hospital property to the hospital board had been signed when in fact they had not been. There were no formalized procedures to close down the bank account, follow-up on amounts held in trust by lawyers, and ensure that advances to the hospital boards for the acquisition of outstanding equipment were accounted for. In summary, the procedures were inadequate to ensure that all matters associated with winding down a major project were satisfactorily dealt with.

In a management letter to the Deputy Minister of Health at the conclusion of the audit, it was recommended that the Department ensure that all matters pertaining to winding down the Project Company be resolved and that all advances be fully accounted for.

After the deficiencies noted above were communicated, the Department indicated that it had instituted procedures to address the concerns.

2.16.8 **Charles Camsell Provincial General Hospital** - period ended March 31, 1989

Audit Observation

The Hospital needs to draw up an agreement with the Charles Camsell Provincial General Hospital Volunteer Association to enable the Association to receive Hospital revenue.

There is no written agreement between the Hospital and the Association that defines the responsibilities of both parties. The Association has been receiving certain types of Hospital revenue since well before the Hospital became a Provincial General Hospital. The Association's revenue for 1988-89 amounted to \$534,885 which was derived mainly from the operation of the Hospital parking and gift shop facilities and from rentals of items such as telephones and televisions.

In a management letter to the President of the Association, copied to the Executive Director of the Hospital, it was recommended that the Association and the Hospital enter into an agreement defining their rights and responsibilities.

2.16.9 **Foothills Provincial General Hospital** - year ended March 31, 1989

In addition to the annual financial audit, my staff completed an examination of the systems used by the Hospital to monitor and control expenditures for physician services.

Audit Observations

Physician evaluations — Physicians working at the Hospital can be under personal service contracts with the Hospital, part of an association that is under contract with the Hospital, or be given privileges to use Hospital facilities. The Hospital needs to improve its systems to monitor the performance of physicians under these types of contract.

The annual appraisal process for physicians under personal service contract with the Hospital does not define physicians' obligations, nor identify requirements for meeting such obligations. As well, personal goals are not established for physicians who have administrative responsibilities. Definition of these obligations and goals would enable the Hospital to subsequently assess the physicians' performance.

Performance reviews are not being completed for the association of physicians that provides interpretations for the Department of Radiology. This association receives about \$2.8 million annually from the Hospital under a contract. Each physician belonging to the association is required to have certain hospital privileges to perform the interpretations. These privileges are reviewed and granted annually to individual physicians. However, no overall performance review of the association is done to determine if contractual obligations are being met and that accurate, timely interpretations are being provided.

Forms used to renew physician privileges do not contain sufficient information to enable senior management to make informed decisions. For example, none of the forms examined contained information about prior year workloads of the physicians, nor of their use of Hospital facilities. Also, different forms are used by the various Hospital departments.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that annual evaluations include an examination of the physicians' activity in relation to their letters of appointment, that the radiology association's performance be evaluated with reference to its contract with the Hospital, and that medical staff reappointment forms be consistent and more complete.

Physician database — Responsibility for payments to about five hundred physicians who provide services to the Hospital is shared by the Hospital, the University of Calgary, and the Department of Health. Information about contractual obligations and payments is maintained in several databases throughout the Hospital. This information is, therefore, fragmented, inconsistent, and occasionally duplicated.

The Hospital needs to develop a single database that can be updated and used by authorized departments within the Hospital. Such a database would eliminate the need for information on several existing databases and would also assist in ensuring that accurate and authorized payments are made to physicians.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital develop and implement a single database of information about physicians providing services to the Hospital.

Excess physician fees and administration charges — The Hospital and the University do not have a formal agreement to provide for the use of excess Basic Fee Income or the sharing of administration charges.

Most contracts among physicians, the University of Calgary and the Hospital specify a Basic Fee Income. This figure represents the yearly maximum a physician is allowed to retain from billings to the Alberta Health Care Insurance Plan while under contract with the Hospital. Amounts in excess of the maximum are paid to the University by the physicians on a sliding scale. As well, the University charges physicians an administration fee of 15% of all Basic Fee Income.

A formal agreement would clarify the arrangements between the Hospital and the University and help them to anticipate funds available from these sources.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital and the University of Calgary develop a formal agreement for the use of excess physician fees and the sharing of related administration charges.

2.16.10 University Hospitals Board - year ended March 31, 1989

In addition to the annual financial audit, my staff completed an examination of the systems used by the Board to control and account for revenue from parking.

Audit Observations

Weaknesses in internal control — Serious weaknesses existed in the internal controls of the Accounting Department of the Board. Senior management was unaware of the majority of these weaknesses until notified of them by my staff.

At the March 31 year end, bank reconciliations had not been prepared since the previous September. Accounts receivable trial balances had not been prepared throughout the year. The general ledger

had not been kept in balance and certain journal entries were incorrect or lacked supporting documentation. A number of key control accounts, including those for suspense, investments, and accounts payable, had not been reconciled regularly.

The failure of the Accounting Department to perform these basic control functions exposed the Board to the possibility of undetected errors in financial transactions and reports. It also caused delays in the preparation of the Board's financial statements and resulted in a significant amount of additional audit time and cost incurred by my staff.

Reasons for the breakdowns appeared to stem from a lack of knowledge by accounting staff of the Board's financial systems, and from the absence of procedures to alert senior management of the difficulties being experienced.

In a management letter to the President at the conclusion of the audit, it was recommended that internal control systems in the Accounting Department be reviewed and strengthened.

In response to my letter, the President of the Hospitals stated that every attempt will be made to ensure that the quality, completeness and timeliness of accounting procedures are of a high standard. Progress made in addressing these serious deficiencies will be reviewed during the next audit of the Board.

Subsidiary company — In contrast with the usual practice of Provincial corporations, the Board has not appointed the Auditor General as auditor of a wholly-owned subsidiary.

On April 1, 1988, the University Hospitals Board's wholly-owned subsidiary, Unicare Integrated Software Inc., commenced operations. The subsidiary company markets software developed at the University of Alberta Hospitals and also earns commissions on the sale of computer hardware equipment. The Board has indicated to me that it believes it is not in the best interests of this marketing company to have an auditor with special obligations to report to the Legislative Assembly. It feels that public awareness of the business of this subsidiary should be the same as for its competitors. The Board has also stated that it is not legally possible for Unicare to appoint the Auditor General as its auditor.

I believe, however, that the Legislative Assembly has given the Auditor General a mandate to audit the entire economic unit administered by each Provincial corporation. It is a key element of our system of government that government departments, Provincial corporations and administrators of regulated funds be accountable fiscally and otherwise to the Legislative Assembly. Much of this accountability comes from the Public Accounts, the tabling of other financial statements in the Assembly, and through the audit and reporting responsibilities of the Auditor General.

If a Provincial corporation, in this case the University Hospitals Board, transfers part of its operations to a subsidiary that is outside the mandate of the Auditor General, accountability to the Legislative Assembly suffers.

The Auditor General Act does not state expressly that I am the auditor of wholly-owned subsidiary corporations. I do not believe there were any Provincial corporations with subsidiaries in 1977 when the Act was drafted and I doubt that the use of subsidiaries was contemplated. Nevertheless, with the exception of Unicare, I am the auditor of all wholly-owned subsidiaries, and the Auditor General's appointment as auditor of wholly-owned subsidiaries has not been disputed.

The financial control, audit and accountability of subsidiaries is a major concern. I have discussed this matter with senior management of the Treasury Department and the Department of Health. Also, I have requested the Select Standing Committee on Legislative Offices to consider whether it is now necessary for legislation to state clearly that the Auditor General is auditor of all wholly-owned subsidiaries of Provincial corporations. I anticipate that the issue will be resolved in the near future.

The March 31, 1989, financial statements of the Board's subsidiary company were audited by a private sector auditor. Therefore, this report does not contain any observations on the financial and management control systems, or the operations of this subsidiary company. As at March 31, 1989, the financial statements of the University Hospitals Board reflected advances to the subsidiary of \$849,000 and the loss incurred by the subsidiary of \$265,000. In addition, the Board has guaranteed performance of a contract entered into by Unicare to implement computer systems at a hospital.

2.16.11 Alberta Cancer Foundation - year ended March 31, 1989

Alberta Hospital Edmonton Foundation - year ended March 31, 1989

Northern Alberta Children's Hospital Foundation - year ended March 31, 1989

University Hospitals Foundation - year ended March 31, 1989

My reports on the financial statements of the Foundations for the year ended March 31, 1989, contained reservations of opinion because, as explained in section 3.2.2, of this report, the Foundations receive donation revenue which is not susceptible of complete audit verification.

2.16.12 Edmonton Area Hospital Advisory Council Fund - year ended March 31, 1989

Audit Observation

The Council did not issue income tax information returns for the honoraria payments it made in 1988.

The Council makes honoraria payments to members of the Board, members of various committees, and the Vice-Chairman for secretarial services. Regulation 200 of the Income Tax Act requires that information returns be issued for fees or other payments for services.

In a management letter to the Vice-Chairman at the conclusion of the audit, it was recommended that the Council comply with the Income Tax Act and regulations with respect to the issuance of information returns for honoraria payments.

2.16.13 Financial audits of the following were also completed for the year ended March 31, 1989:

Alberta Cancer Board

Alberta Hospital Edmonton

Glenrose Rehabilitation Hospital

Northern Alberta Children's Hospital

2.17 LABOUR

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report.

2.17.1 Financial audits of the following were completed for the year ended March 31, 1989:

Department of Labour

Long Term Disability Fund

Long Term Disability Fund - Bargaining Unit

Personnel Administration Office Revolving Fund

2.18 LEGISLATIVE ASSEMBLY

Of the matters reported to management at the conclusion of the audits of the Department's various Offices, none warrant inclusion in this report.

2.18.1 Financial audits of the following were completed for the year ended March 31, 1989:

Legislative Assembly Office
Office of the Chief Electoral Officer
Office of the Ombudsman

2.18.2 **Office of the Auditor General** - year ended March 31, 1989

The financial statement of the Office of the Auditor General for the year ended March 31, 1989 was audited by a firm of Chartered Accountants appointed by the Select Standing Committee on Legislative Offices. The financial statement is published in section 8 of the public accounts of the Province.

2.19 MUNICIPAL AFFAIRS

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.19.1 **Department of Municipal Affairs** - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the financial and management controls used by the Department to administer the Senior Citizens' Renters Assistance Program and the Property Tax Reduction Program.
- An examination of the suitability of the Municipal Affairs Coding Structure financial statements in meeting their purpose as a means of providing accountability to municipal taxpayers.

2.19.2 **Alberta Mortgage and Housing Corporation** - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the system used by the Corporation to control mortgages under the Core Housing Incentive Program (CHIP) and the Modest Apartment Program (MAP).
- An examination of the systems used by the Corporation to provide management information on the Corporate Housing Programs.

Audit Observations

In my 1986-87 and 1987-88 reports to the Legislative Assembly, I commented on deficiencies in the information available and the systems used by the Corporation to administer its mortgages, and its land and housing investments. The 1988-89 audit revealed that management has begun to address these problems, but that most of the deficiencies remain. The following are examples:

Housing information systems — The information systems used by the Corporation to administer its housing programs are seriously deficient.

The balance sheet value of the Corporation's housing program assets at March 1989 totalled \$1,063 million. However, the sixteen separate systems used to administer these assets cannot, either individually or collectively, provide the information needed to manage the housing programs properly.

The following were among the system deficiencies and inefficiencies noted during the audit:

- None of the systems record the major components of the Corporation's housing fixed assets, nor the nature of the assets held, their expected useful lives, their cost or their locations.
- The housing project financial information system is unable to provide detailed revenue and expenditure information on the Corporation's properties which are administered by certain housing authorities.
- Costs shareable under agreements with the Canada Mortgage and Housing Corporation and municipal authorities are not identified and accounted for as shareable at the time they are incurred. As a result, considerable clerical analysis is required to prepare claims. This is inefficient, time-consuming, and delays the submission of claims.
- Fixed asset costs are expensed to modernization and improvements in the years in which the assets are acquired, instead of being capitalized and depreciated over their useful lives.
- The system used to control housing activities at branch offices does not provide overall budget, cost and cost-variance information.
- Much clerical effort is involved in transferring, checking and reconciling data between the systems. Fewer and better systems could reduce this effort considerably.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 28

It is recommended that the Alberta Mortgage and Housing Corporation improve substantially the ability of its systems to provide the information needed to manage its housing programs, and that inefficiencies in the existing information systems be eliminated.

Land information systems — The information systems used by the Corporation to administer its land programs need improving.

The balance sheet value of the Corporation's land program assets at March 31, 1989 totalled \$123 million. Following the last three annual audits, I have commented on deficiencies in the systems used to record and manage these assets.

Most of the problems are caused by recording land on a project basis and not on an individual lot basis. This, together with the absence of legal identifications for the lots or undivided land parcels held, impairs management's ability to manage and control its land inventories efficiently. For example, when lots are sold, gains or losses cannot be determined without performing complex and often time consuming manual calculations.

In a management letter to the Corporation's President at the conclusion of the audit, it was again recommended that a new land information management system be developed to provide the financial and other management information needed to administer the Corporation's land programs.

Mortgage administration systems — The Corporation needs to improve the management information systems it uses to administer Core Housing Incentive Program and Modest Apartment Program mortgages.

At March 31, 1989, loans secured by these mortgages amounted to \$1,119 million. Most of these loans have been in arrears for several years. In November 1987, to protect its financial position and to promote orderly repayment, the Corporation offered to restructure the loans of borrowers who were substantially in arrears. Unfortunately, the information systems and procedures used to administer the restructuring arrangements were inadequate in several respects.

For example, during most of 1988 the Corporation's mortgage system was unable to calculate the adjustments required by the restructuring arrangement, or to report restructured loan balances or monthly repayments. When these were required, they had to be calculated manually. This was a complex and time-consuming process which adversely affected management's ability to monitor the status of the loans.

Delays in producing the documentation needed to evidence the restructuring arrangements also caused problems. As at December 1988, the legal documentation had not been finalized for any of the restructured loans, and borrowers had not been provided with the necessary cash flow reporting formats.

In a management letter to the Corporation's President at the conclusion of the audit, it was recommended that the Corporation improve the management information and procedures used to administer its Core Housing Incentive Program and Moderate Apartment Program mortgage portfolio.

Loan loss provisions — For financial reporting purposes, the Corporation needs systems which can value certain Core Housing Incentive Program and Modest Apartment Program mortgage loans based on the cash-generating potential of the properties held as collateral.

As indicated above, most of these mortgage loans are in arrears. For many, the value of the properties on which the loans are secured has fallen in recent years to less than the outstanding loan. For financial reporting purposes, accounting provisions are set up to reduce the reported value of these loans to management's estimate of the amounts that will be repaid.

The accounting provisions should be designed to reduce the loans to their net realizable values. However, the net realizable value of a loan depends on whether or not the Corporation intends to foreclose on the loan. If foreclosure is intended, the net realizable value of the loan should be the disposal value of the collateral, less disposal costs. If foreclosure is not intended, the net realizable value should be the present value of the expected cash flow receivable under the loan.

In the past, management has preferred to value mortgage loans based on the gross value of the collateral held. Following debate during the audit and the subsequent adoption of the methods outlined above, the loan loss provision originally booked by management at March 1989 was substantially increased.

Following debate on alternative valuation methods, the Corporation carried out appraisals of these mortgage loans. This increased significantly management's information on the potential cash flow available from many of the projects it finances. Furthermore, appraised values based on the cash-generating potential of the property mortgaged were compared with repayments received on those loans in recent years. This indicated that additional repayments of up to \$10 million per year may be obtainable.

There is every indication that better information on the status of the Corporation's mortgaged properties could improve the management of its mortgage portfolio. In particular, it could increase the Corporation's cash flow from that source. Accordingly, in a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendations:

Recommendation No. 29

It is recommended that the Alberta Mortgage and Housing Corporation improve the system that it uses to determine loss provisions for mortgage loans under the Core Housing Incentive Program and the Modest Apartment Program.

It was also recommended that the Corporation further investigate anomalies between net cash flow potential as estimated by its appraisers and the actual cash flow currently being collected from properties mortgaged under the two programs.

Foreclosure guidelines — The Corporation needs formally approved procedures for ensuring that foreclosures proceed, or other approved action is taken, when mortgage loans fall seriously in arrears.

At December 1988, foreclosure proceedings were not being actively progressed on mortgage loans totalling \$195 million, even though repayments were seriously in arrears. Furthermore, there is evidence that the Corporation's position with regard to repayment of these loans had deteriorated because of the delay.

The Corporation needs to develop and obtain Board approval for formal foreclosure guidelines. The guidelines should deal with when and how to proceed with foreclosure, and the nature and level of approval required when alternative action is taken. There should also be guidance on the action to be taken where guarantees have been provided by third parties.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 30

It is recommended that the Alberta Mortgage and Housing Corporation develop and put in place comprehensive foreclosure guidelines to protect the Corporation's mortgage portfolio.

Financial reporting — In my 1987-88 annual report (section 2.20.2), I complimented management on improvements made to the format of the Corporation's 1987-88 financial statements. I suggested, however, that reporting operating results in a manner that discloses program revenues and expenditures would further improve the statements. I am pleased to report that this suggestion was adopted for 1988-89 and that the result is more meaningful and useful financial statements. The Corporation's statements are now in accordance with generally accepted accounting principles.

2.19.3 Improvement Districts' Trust Account - year ended December 31, 1988

Audit Observation

My report on the Trust Account's 1988 financial statements contained a reservation of opinion because the statements do not include certain assets and liabilities that were transferred to the Trust account when Improvement District Number 222 was created.

2.19.4 Metis Population Betterment Trust Account - year ended March 31, 1989

Audit Observation

Various previously reported irregularities relating to the establishment and administration of the Trust Account persisted throughout 1988-89. I commented on these irregularities in my last five annual reports (1987-88 section 2.20.4). The main problem is that there is serious doubt as to the legality of the Trust Account. I have a legal opinion which states that the Trust Account is not legally constituted because section 8 of The Metis Betterment Act does not provide authority to create such a fund. If the Trust Account is not legally constituted, then the revenue it receives, the expenditures it makes, the assets it acquires, and the liabilities it incurs, all lack legislative authority.

Another problem concerns the manner in which the members are appointed and elected to the local boards of the eight settlement associations established under the Act. The method used does not comply with section 4(3) of the Act. In addition, the legislation governing the payment of honoraria to board members appears to be inconclusive or flawed. These two concerns cast doubt on the legitimacy of honoraria paid to board members by the Department of Municipal Affairs.

In my last five reports I recommended that the Department resolve the various problems relating to non-compliance with, and inadequacies in, the Trust Account's legislative authorities.

In response to my recommendations, amending legislation was drafted. As explained in my 1987-88 annual report, however, the proposed legislative changes would not have resolved the problems. In response to my 1987-88 recommendation, the Provincial Treasurer stated in a report to the Public Accounts Committee that further legislative amendments are being prepared to address this concern.

Accordingly, in a management letter to the Deputy Minister, I again made the following recommendation:

Recommendation No. 31

It is recommended that the Department of Municipal Affairs resolve the various problems relating to non-compliance with the legislative authorities pertaining to the establishment and administration of the Metis Population Betterment Trust Account.

2.19.5 Financial audits of the following were also completed:

Alberta Planning Fund - year ended March 31, 1989

Metis Settlements Trust Fund - year ended March 31, 1989

Special Areas Trust Account - year ended December 31, 1988

2.20 PUBLIC WORKS, SUPPLY AND SERVICES

Of the matters reported to management at the conclusion of the Department's audits, the observation and recommendations below were selected for inclusion in this report.

2.20.1 Department of Public Works, Supply and Services - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to manage the government's fleet of motor vehicles and aircraft.

- An examination of the system used by the Department to monitor and control the sale of surplus government assets.
- An examination of the systems used by the Department to order and acquire supplies.
- An examination of the systems used by the Department to acquire land.

Audit Observation

The systems used by the Department to ensure proper maintenance and control of motor vehicles need improving.

The Department's Central Vehicle Services Unit is responsible for acquiring, controlling and maintaining a fleet of more than 4,000 vehicles. The Unit administers a Preventative Maintenance Program which requires certain types of regular maintenance for all government-owned vehicles. Each vehicle has a log book for recording the work performed.

For a significant number of vehicles, there is no record in their log books that the required preventative maintenance work has been done, usually because it has not been done. Improper maintenance can result in increased repair costs, reduced resale values and compromised vehicle safety.

The Department's Vehicle Inventory Management System collects information that is used to manage the government's fleet of vehicles. However, controls over the input and processing of data are inadequate, with the result that some of the data is unreliable.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that responsibility for initiating preventative maintenance be communicated to users of the Province's motor vehicles, and that procedures be established to ensure that all necessary maintenance is carried out. It was also recommended that controls be established to ensure the accuracy and completeness of processing of information produced by the Vehicle Inventory Management System

2.20.2 A financial audit of the Public Works, Supply and Services Revolving Fund was also completed for the year ended March 31, 1989.

2.21 RECREATION AND PARKS

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.21.1 Department of Recreation and Parks - year ended March 31, 1989

Audit Observations

Non-compliance with financial accountability policies — The Department is not accounting for certain revenues and expenditures in accordance with established accounting policies.

In my 1987-88 annual report (section 2.22.1), I recommended that the Department comply with established financial reporting policies and make expenditures only from monies appropriated for that purpose by the Legislative Assembly.

My concerns were in connection with contracts entered into with Kan Alta Golf Management Ltd. to have buildings constructed for the Department on the Kananaskis golf courses. Kan Alta is recovering the cost of constructing and financing the buildings by reducing the rent otherwise payable to the Province to lease the golf courses.

These revenues and expenditures are not budgeted in the Province's annual estimates or reported in the Province's public accounts. In effect, they escape the Province's financial accountability processes. In the 1988-89 public accounts, \$483,300 of revenues are not reported, \$1,460,000 of expenditures are not reported, and \$977,000 of liabilities are not reported.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department comply with established financial reporting policies and record revenues and expenditures properly in the financial statements of the Province.

Overpayments — The Department has not concluded arrangements to recover expenditures made in excess of requirements.

In my 1987-88 report (section 2.22.1), I recommended that the Department recover from the Kananaskis Village Resort Association \$635,000 that was paid in excess of contractual obligations.

At the Minister's direction, an agreement has since been prepared for continued Provincial support for the Association which includes a schedule for repayment of the \$635,000. At the time of the audit, however, the agreement had not been finalized. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 32

It is recommended that the Department of Recreation and Parks recover monies paid to Kananaskis Village Resort Association in excess of contractual obligations.

2.21.2 Alberta Sport Council - for the year ended March 31, 1989

Audit Observations

My report on the Council's 1988-89 financial statements contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Council receives donation revenue which is not susceptible of complete audit verification.

2.21.3 The Recreation, Parks and Wildlife Foundation - year ended March 31, 1989

Audit Observations

Non-compliance with legislation — In my 1987-88 annual report (section 2.22.3), I described how the Foundation had contravened the Recreation, Parks and Wildlife Act by paying \$32,000 from its general funds for travelling expenses, subsistence and remuneration for Foundation Members. The Act allows the Foundation to pay expenses of this nature only from money voted by the Legislature for those purposes. I recommended that, in future, the Foundation comply with the expenditure restrictions imposed by the Act.

During 1988-89, the Foundation paid a further \$54,000 from its general funds for travelling, subsistence and remuneration. Accordingly, in a management letter to the Foundation's Chairman at the conclusion of the audit, it was again recommended that the Foundation comply with the expenditure restrictions imposed by legislation.

It should be noted, however, that an amendment to the Act has been drafted to allow such expenses to be paid out of the Foundation's general funds. At the date of this report, the amendment was awaiting legislative approval.

Financial statements — My report on the Foundation's 1988-89 financial statements contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Foundation receives donation revenue which is not susceptible of complete audit verification.

2.21.4 A financial audit of the **Recreation and Parks Revolving Fund** was also completed for the year ended March 31, 1989.

2.22 SOCIAL SERVICES

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.22.1 **Department of Social Services** - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- A further examination of the systems used by the Department to control annual expenditures under the Social Allowance and Assured Income for the Severely Handicapped Programs. This also included examining the procedures used for ensuring compliance with the Department's Income Security Programs Manual, and reviewing the progress made in addressing the recommendations made following previous audits.
- An examination of the systems used by the Department to monitor and control payments for residential resources provided by contracted agencies in the delivery of the Child Welfare and Women's Emergency Shelter Programs.
- An examination of the systems and procedures used by the Department to monitor and control the payment of benefits under the Widows' Pension Program.
- An examination of the systems and procedures used by the Department to monitor and control the payment of prescription drugs benefits.
- Audits of the annual 1987-88 cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement and the Canada Assistance Plan Agreement with the Government of Canada.

Audit Observations

Social Allowance and Alberta Assured Income for the Severely Handicapped Programs

In my last two annual reports, I commented on numerous long-standing deficiencies in the systems used to control and record expenditures, and to verify the eligibility of benefit entitlements, under the above two programs. I also indicated that there is considerable scope for the systems to provide more extensive program delivery information.

The Social Allowance Program provides assistance to people in need. This involves providing the money, goods and/or services essential to health and well-being, as defined in legislation. The Assured Income for the Severely Handicapped Program is an income-tested program that provides financial and health benefits for handicapped adults. The Department refers to people who receive benefits under these programs as clients.

During 1988-89, these systems were again examined by my staff as part of a broader-based examination of the systems used to administer the programs. The program delivery systems were examined, together with a selection of payment transactions from the 62 district offices. Initiatives by the Department to address previously reported systems inadequacies was also examined. It was concluded that, although improvements have been achieved, problems still exist.

Payment procedures — District offices are not complying with the payment standards and procedures contained in the Department's Income and Security Programs Manual.

The Manual is designed to help district office staff ensure that benefits are paid only to eligible clients and for identified needs. Of the client files examined during the audit, 59% contained procedural errors which, in 15% of the cases, had resulted in incorrect payments. Based on the errors found, it is estimated that overpayments of \$12.2 million and underpayments \$900,000 occurred during the year ended March 1989.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 33

It is recommended that the Department of Family and Social Services improve the controls over payments under the Social Allowance and Alberta Assured Income for the Severely Handicapped Programs, and ensure compliance with established policy.

Computer editing procedures — In my 1987-88 annual report, I recommended that the Department improve its computer editing procedures, and thereby the accuracy of the data, in the system used to administer the two Programs. Computer editing is the process by which the computer is used to check the validity of data prior to processing.

My recommendation followed observations that the data contained many coding and other inaccuracies, including numerous duplicate social insurance numbers and Alberta Health Care numbers. Inaccurate data and duplicate numbers can result in benefits being paid to ineligible clients or in the wrong amounts.

The Local Income Security Application system, currently being developed by the Department, will feature enhanced computer editing. Pending implementation of the new system, however, in a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department improve the computer editing procedures, and thereby the accuracy of the data, in the system it uses to administer the two Programs.

Cost-sharing opportunities foregone — By failing to obtain asset and shelter information from clients, the Department is foregoing the opportunity of sharing certain costs with the Government of Canada.

Each year the Province spends approximately \$135 million on its Assured Income for the Severely Handicapped Program. When individuals apply for benefits, the information needed to assess their eligibility is collected and recorded as required by the Income Security Programs Manual. The manual also requires information to be requested on the applicants' assets and shelter costs, even though these figures are not needed to assess eligibility for benefits. The figures are needed, however, to enable the Department to determine whether the benefit costs are shareable with the Government of Canada.

Departmental staff often do not obtain asset and shelter information from clients, and when they do, little effort is made to verify that it is accurate. It seems likely, therefore, that the Province is foregoing revenue by not claiming shareable costs.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 34

It is recommended that the Department of Family and Social Services increase the shareability of costs by requiring beneficiaries under the Assured Income for the Severely Handicapped Program to disclose their assets and shelter costs, and by verifying the accuracy of the information obtained.

Collection of receivables — There is scope for improving the procedures used by the Department to collect receivables.

In 1987, the Department decentralized its procedures for recording receivables and recoveries. District office assessors now calculate and record receivables, while headquarters staff process recoveries, adjustments and write-offs. This segregation of functions not only eliminated previously-experienced processing delays, it has also improved internal control.

Despite these procedural improvements, new receivables resulting from overpayments and prepayments still average more than \$1 million each month. In this regard, there is scope for improving the information used to focus recovery efforts. Regular analyses to determine the nature and reasons for identified receivables, especially overpayments, could provide such information. This might also lead to better procedures for reducing the occurrence of overpayments.

The efforts made by the Department's district offices to identify and recover overpayments are somewhat inconsistent. In some offices, delays in identifying and recording overpayments occur because caseworkers do not always inform assessors promptly when clients' circumstances change.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department evaluate the reasons for the increases in receivables and develop strategies to improve recovery.

Eligibility for benefits — The Department needs to review its controls over benefit payments under the Assured Income for the Severely Handicapped Program.

Legislation states that eligibility for benefits under the Program must be based on "a severe handicap which is likely to continue to affect the individual permanently." During the audit, several instances were noted where individuals were provided with assistance on a temporary basis. In each case, the individual's circumstances should have been reviewed after one year to determine whether further assistance was warranted. The files, however, showed no evidence that follow-up reviews were completed.

In addition, before 1985 many clients with only minor disabilities were approved as being eligible for assistance under the Program. Since eligibility for benefits is rarely reviewed after initial approval, the majority of these are still receiving benefits. The Department could identify such situations if client eligibility was reviewed periodically.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department review its controls to ensure that benefits are provided only to individuals eligible to receive such benefits under legislation.

Child Care Programs

There are deficiencies in the procedures used by the Department to license and monitor children's day care facilities. There are also problems regarding the completeness and accuracy of the information used to administer the Child Welfare Program.

Day care centre licensing — Improved standards are needed for assessing the qualifications of senior administrators of licensed children's day care centres.

In my 1987-88 annual report, I recommended that the Department apply standards similar to those used for the Child Welfare and Family Day Home Programs to screen senior administrators of day care centres before issuing day care centre licenses.

Effective September 1989, the Department initiated a policy which requires new license applicants of day care centres to submit criminal record checks with their applications. However, this policy does not apply to existing administrators or administrators employed by license holders after licenses are issued. In addition, senior administrators of day care centres are not screened for diagnosed mental illness or evidence of drug addictions or alcoholism. As well, the Department does not assess the abilities of senior administrators to implement proposed day care programs.

As the new policy does not sufficiently strengthen the standards applicable to day care centre licensing, it was again recommended in a management letter to the Deputy Minister that the Department apply standards similar to those used for the Child Welfare and Family Day Home Programs to screen senior administrators of day care centres before issuing children's day care centre licenses. The Department has indicated, however, that after considering this recommendation, it has decided that its present arrangements are satisfactory.

Day care centre monitoring — The Department needs better ways of determining whether day care centres are providing the programs they are funded to provide, and of checking that observed deficiencies in the programs are eliminated.

In my 1987-88 annual report, I recommended that the Department improve its procedures for monitoring the adequacy of programs provided by children's day care centres to meet the developmental needs of children, and for following-up and eliminating observed deficiencies in the programs.

Since then, the Department has begun to provide training for child care licensing officers in day care centre programming requirements. Licensing officers, however, still do not address day care programming when completing the Monitoring and Licensing Visit Checklists. In addition, observed deficiencies are still not followed-up and taken into account when license renewals are considered. The Day Care Information System, which was to address these concerns, is not used by licensing officers because they are unfamiliar with it.

As satisfactory improvements to day care monitoring had not been implemented, I again made the following recommendation in a management letter to the Deputy Minister at the conclusion of the audit:

Recommendation No. 35

It is recommended that the Department of Family and Social Services improve its procedures for monitoring the adequacy of programs provided by children's day care centres, and for following-up and eliminating observed deficiencies in the programs.

In my 1987-88 annual report, I also recommended that the Department strengthen its procedures for verifying that the information used to calculate funding for children's care facilities is accurate.

I am pleased to report that the Department has since improved its procedures for checking the accuracy of this information. These improvements satisfactorily resolve my previously reported concern.

Child Welfare Program and Information System — There is still scope for improving the usefulness of the Department's Child Welfare Information System and for closer monitoring for compliance with legislative authorities and Departmental policies.

In my last two annual reports, I recommended that the Department make the Child Welfare Information System more effective by improving its speed, making it more user-friendly, and taking steps to ensure that the information it captures is reliable. I also recommended that the Department upgrade the system to enable it to provide more complete information on the extent to which the Program's expectations are being achieved.

The Department has since initiated a project to address the problems in the system. However, as the previously reported problems are not yet resolved, I again recommended in a management letter to the Deputy Minister that the Department make its Child Welfare Information System more effective by improving its speed, making it more user-friendly, taking steps to ensure that the information it captures is more reliable, and upgrading the system so that it can provide more complete information on the extent to which Child Welfare Program expectations are being achieved. Progress in this regard will be reviewed during future audits.

Widows' Pension Program

There are problems in the procedures used by the Department to prevent overpayments and to review potential cases of overpayments under the Widows' Pension Program.

Investigating overpayments — Reviews by assessors to investigate potential overpayments are unduly delayed.

At January 1989, 686 files were awaiting review. This represents a considerable backlog and, based on past performance, many of these files will remain uninvestigated for significant periods of time. The longer the delays in substantiating overpayments, the greater the risk that recovery attempts will be unsuccessful.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 36

It is recommended that the Department of Family and Social Services ensure that files identified as containing potential overpayments of widows' pension benefits are reviewed promptly by assessors to increase the likelihood that overpayments will be recovered.

Preventing overpayments — Improvements could be made to the strategies used to prevent overpayments.

The Department automatically increases widows' pension benefits when the Government of Canada reduces or stops widowed spouses' allowances. Similar increases occur if clients, who are otherwise entitled to federal assistance, do not apply to Canada for such assistance. If clients receive Provincial benefits, then later apply for and receive retroactive benefits from Canada, some Provincial benefits are refundable and should be recovered by the Department.

Section 5 of the Widows' Pension Act allows the Department to alter the pensions paid to widows who fail to collect income to which they are entitled. Invoking this section with regard to federal widowed spouses' allowances would put the onus on clients to either claim the federal allowances or confirm to the Department that they are not entitled to them.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department consider invoking section 5 of the Widows' Pension Act to reduce the risk of overpaying widows' pension benefits. The Department has agreed to review this matter, including the authorities needed to implement this recommendation.

Prescription Drug Benefits — Significant program cost-savings are available from the more extensive use by the Department's clients of generic drugs.

Social assistance clients eligible for benefits under the Health Benefits Program receive free prescription drugs. With effect from July 1986, pharmacies were asked to dispense the least-costly drugs when filling prescriptions under the Program. Specifically, the agreement with the Alberta Pharmaceutical Association states:

"A generic equivalent should be dispensed whenever available provided that the use of the generic equivalent is in the best interest of the patient, unless the prescriber indicates otherwise:

- a. By designating the name of the manufacturer; or
- b. By specifying that no equivalent is to be dispensed."

A Departmental committee issued a report in February 1987 which stated that "generic drug substitution is believed to provide a viable alternative for cost containment." In a report issued in February 1988, a Departmental evaluation team estimated that, at that time, only 5% to 6% of prescriptions were being filled with generic substitutions. It was believed that these percentages could be increased to over 30%, resulting in annual cost-savings of \$2.8 to \$4 million.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department continue with its efforts to encourage greater use of generic drugs.

Canada Assistance Plan cost-sharing claims — My report on the Province's 1987-88 cost-sharing claim under the Canada Assistance Plan Agreement contained a reservation of opinion. Under the Agreement, certain expenditures are cost-shared with the Government of Canada. The Agreement requires compliance with relevant Acts, regulations and Departmental policies, and audited claims to be forwarded annually to the Government of Canada. Under an arrangement with the Government of Canada, the Department's Chief Financial Officer is required to certify that each claim is ... "based on information obtained through the application of systems, procedures and coding structures designed to provide reasonable assurance that the claim complies with the provisions of relevant authorities, including the Canada Assistance Plan Agreement."

Recent audits of the systems used to administer the Social Allowance and Assured Income for the Severely Handicapped Programs revealed numerous deficiencies. For this reason, following the audit of the 1987-88 claim I advised the Department that the Chief Financial Officer's certificate on the claim should indicate that:

- the intake and verification procedures designed to provide assurance that clients are eligible for social allowance, and
- the procedures for determining whether clients' entitlements are in accordance with the Department's standards and approved rates

did not operate effectively during 1987-88.

I acknowledge that the Department is continuing to address the deficiencies in its systems and procedures. I also believe that initiatives already begun will improve compliance with legislation and policy guidelines. However, the Chief Financial Officer did not disclose the aforementioned systems deficiencies in his certificate to the Government of Canada. Accordingly, my report on the 1987-88 CAP claim included the following paragraphs:

"The Department has intake and on-going verification procedures designed to provide assurance that clients are eligible for social allowance. In addition, the procedures should ensure that entitlement determined for clients is in accordance with the standards and rates authorized by the Department. These procedures did not operate effectively during the period April 1, 1987 to March 31, 1988.

In my opinion, this Claim for Contribution in the amount of \$446,761.614 is in accordance with the records of the Department and the certification by the Chief Financial Officer is, except as described in the previous paragraph, a fair assertion of the systems, procedures and coding structures employed."

2.23 SOLICITOR GENERAL

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report.

2.23.1 Department of the Solicitor General - year ended March 31, 1989

In addition to the annual financial audit, my staff completed an audit of the Province's 1988-89 cost-sharing claim for expenditures under the Native Courtworker Program pursuant to an agreement with the Government of Canada.

2.23.2 Alberta Liquor Control Board - year ended January 3, 1989

In addition to the annual financial audit, my staff examined the procedures used by the Board to determine the need for and the locations of new retail outlets, and to determine which outlets should be closed.

2.23.3 Financial audits of the Alberta Racing Commission and the Motor Vehicle Accident Claims Fund were also completed for the year ended March 31, 1989.

2.24 TECHNOLOGY, RESEARCH AND TELECOMMUNICATIONS

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.24.1 Department of Technology, Research and Telecommunications - year ended March 31, 1989

Audit Observation

In my 1987-88 annual report (section 2.25.1), I suggested that there was scope for improving the contents and supporting information for the Department's financial, technical and commercial divisions' evaluation reports on funding proposals. The funding is for the development and commercialization of advanced technology, and amounts to approximately \$30 million each year.

Since then, the Department has introduced expanded procedures for evaluating funding proposals. These include using a computer system that prescribes the information that evaluation reports should contain. In addition, funding proposals exceeding \$250,000 are reviewed by the Technology and Research Advisory Committee which makes independent recommendations to the Minister.

These procedures work well when applied, however, most large proposals do not go through the evaluation process. Furthermore, it was unclear to my staff, from the information available, how some of the evaluations had been carried out. Some files lacked evidence that the Department had verified applicants' assertions in support of funding proposals, and that concerns raised during evaluations had been satisfactorily cleared.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department follow an evaluation process for all funding proposals, and issue a policy and procedures manual containing guidance for staff involved in the process.

2.24.2 **Chembomed Ltd.** - year ended March 31, 1989

Audit Observations

Accounting records and procedures — There were severe deficiencies in the Company's accounting records and financial control procedures.

During 1988-89, some accounting records were not maintained, while others were not updated promptly or were not reconciled regularly to the general ledger. Often there was no indication that journal entries had been reviewed and approved by a responsible official. A document retention policy had not been formalized. Procedure manuals had not been completed for key employee positions, particularly those subject to high turnover, and batch controls were not in place for all input documents. Furthermore, information with respect to the Company's intentions for major products was not communicated promptly to the Controller.

The absence of these records and controls increases the risk that transactions will not be recorded and that errors will occur and remain undetected. Errors resulting from these deficiencies were discovered and corrected during the audit.

In a management letter to the Company's President at the conclusion of the audit, I made a number of detailed recommendations to deal with each of the observed deficiencies, which are summarized as follows:

Recommendation No. 37

It is recommended that Chembomed Ltd. review the Company's accounting records and financial control procedures, and eliminate the numerous deficiencies therein.

Computer systems — The Company's back-up and recovery procedures could not recover computer data promptly and efficiently when a systems failure was experienced.

The Company's accounting staff experienced problems with the computerized accounting system before and during the year-end audit. Unnecessary complications and work redundancy occurred at year-end because up-to-date and non-corrupted computer data back-up files were not available. Avoidable costs were incurred and the potential for a similar problem still exists.

In a management letter to the President at the conclusion of the audit, it was recommended that the Company review the adequacy of its computer back-up and recovery systems and, where necessary, take prompt corrective action. The procedures should then be tested to ensure that they are effective.

2.24.3 The Alberta Educational Communications Corporation - year ended March 31, 1989

Audit Observation

My report on the Corporation's 1988-89 financial statements contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Corporation receives membership contributions which are not susceptible of complete audit verification.

2.24.4 The Alberta Government Telephones Commission - year ended December 31, 1988

In addition to the annual financial audit, the following work was completed:

- An examination of the procedures used by the Commission's internal audit department to determine whether controls over computer systems under development are properly identified.
- Audits of the financial statements of the Commission's wholly-owned subsidiary companies:
 - Alta Telecom International Ltd.
 - Alta Telecom Inc.
 - Alta Telecom Licensing Corporation
 - Alta-Can Telecom Inc.
- Audits of "Schedules of Building Operating Costs" for the year ended December 31, 1988 for distribution to tenants who lease space in the Commission's buildings.

Audit Observations

The two main observations following the Commission's 1988 annual audit related to serious deficiencies in the systems and procedures used to acquire, allocate and control microcomputers, and in the electronic procedures used to create, send and authorize documents.

My 1987-88 annual report contained recommendations that the Commission review its procedures for acquiring, allocating and controlling microcomputers, and for controlling electronic authorizations, and correct the deficiencies in such procedures.

During the 1989 audit, systems and controls over microcomputers and electronic authorizations, together with the action taken and proposed to address my previously reported concerns, were again examined. At the date of this report, however, this audit work was incomplete.

2.24.5 Alberta Research Council - year ended March 31, 1989

Audit Observation

The Council needs to improve the control exercised over access to its computer resources.

The Council's computer equipment and systems are used extensively to process and record both technological and administrative data. Access to these resources must be controlled carefully since their loss or destruction could seriously disrupt many of the Council's activities.

The following were among the access control and related concerns identified during the audit:

- Emergency computer back-up and recovery procedures designed to enable the Council to recover in the event of a major computer breakdown, or the loss of important programs or data, have not been tested.

- Within the data processing area, there is inadequate segregation of incompatible duties, with no compensating management review procedures. For example, the systems analyst is involved in computer operations, systems development and implementation and, as well, has access to all program libraries and system documentation.
- Activity logs used to summarize operator and system activities are reviewed infrequently.
- Staff sometimes remain logged on to the computer long after normal working hours.
- Password protection arrangements are not monitored to ensure that they are operating as planned.

In a management letter to the Council's President at the conclusion of the audit, a number of specific recommendations were made to address these concerns. These included recommending that:

- back-up and recovery procedures be reviewed and tested to ensure that they are capable of enabling the Council's operations to resume as efficiently as possible should a major system failure be experienced,
- certain of the systems analyst's duties be re-allocated to other computing personnel and that the Manager of the Council's IBM Systems Group supervise the analyst's work to the extent necessary to minimize the risks associated with inadequate segregation of duties,
- the various levels of computer access controls be supervised by a person or persons independent of the IBM Systems Group, and that
- steps be taken to ensure that activity logs are reviewed regularly, that password protection arrangements are effective, and that computer terminals are not left unattended while they are signed-on to the computer.

In all material respects, management agrees with these recommendations and is instituting procedures to address the underlying concerns.

2.24.6 Financial audits of the following were also completed:

Alberta Heritage Foundation for Medical Research - year ended March 31, 1989

The Alberta Government Telephones Employees' Group Life Insurance Trust Account - year ended December 31, 1988

The Alberta Government Telephones Employees' Pension and Death Benefit Fund - year ended December 31, 1988

The Alta Telecom International Employees' Group Life Insurance Trust Account - year ended December 31, 1988

The Alta Telecom International Employees' Pension and Death Benefit Fund - year ended December 31, 1988

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.25.1 Department of Tourism - year ended March 31, 1989.

Audit Observation

The Department needs better procedures for ensuring that it does not overpay amounts payable in foreign currencies.

The Department has contracted with a Canadian Company to place television and magazine advertising in the United States. Under the contract, advertisers invoice the Company and the Company invoices the Department, all in U.S. dollars. The Department pays these invoices with Canadian dollars using "preliminary" estimated exchange rates.

The Company pays the advertisers' accounts with U.S. dollars. It then reports to the Department any difference between the cost of the U.S. dollars and the amount received from the Department. Differences of this nature are later settled by a payment from the Company to the Department.

During 1988-89, the Department did not check that the Company had settled the differences arising on all invoices paid. The audit revealed that not all transactions were included on a 1988-89 settlement report prepared by the Company, and that approximately \$50,000 was still owed by the Company to the Department for that year.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department pay amounts payable in United States dollars with U.S. funds, or establish procedures for identifying and collecting overpayments caused by using estimated exchange rates. I understand that a U.S. dollar bank account was set up during 1989-90 from which the Company's accounts are now being paid.

2.25.2 Alberta Tourism Education Fund - period ended March 31, 1989

Audit Observation

Monies provided by the Legislature to fund the activities of the Tourism Education Council are not being handled as required by legislation.

The Tourism Education Fund was established in May 1988 to fund the activities of the Tourism Education Council. These activities include developing standards and co-ordinating training programs for staff in Alberta's tourism industries, and promoting an awareness of tourism as an economic activity.

Section 5 of the Tourism Education Council Act requires monies provided by the Legislature to fund the Council's activities to be deposited to and paid out of the Fund. However, this does not happen. Instead, the monies are treated as monies appropriated to the Department of Tourism, out of which the Department pays expenses incurred by the Council.

The only money received by the Fund during 1988-89 was a grant of \$19,800 from the Department to acquire fixed assets for the Council's use.

The Department's 1988-89 appropriation included \$490,000 specifically for the Council. Handling and accounting for this money in the manner described above contravenes the prevailing legislation.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department either comply with section 5 of the Tourism Education Council Act or seek amendments thereto to allow monies provided to fund the Council's activities to be handled in a different manner. I understand that an legislative amendment has since been drafted.

2.26 TRANSPORTATION AND UTILITIES

Of the matters reported to management at the conclusion of the Department's audits, the observations and recommendations below were selected for inclusion in this report.

2.26.1 Department of Transportation and Utilities - year ended March 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the Department's construction contract unit costing system.
- An examination of the controls exercised by the Department over the completeness and accuracy of data input to the Province's central (DFS/CFS) financial accounting and reporting system.

Audit Observations

Highway construction contracts — In my 1987-88 annual report (section 2.28.1), I described some of the difficulties experienced by the Department in its efforts to promote the viability of Alberta's truck haul industry. Of particular concern was the Department's inability to check whether trucking contractors were complying with contractual arrangements, especially with regard to their subcontractors. I recommended that the Department analyze the costs and benefits of its truck haul contract conditions and compare them with alternative strategies for assisting the Province's trucking industry.

The Department has since retained consultants to determine the costs, benefits and effectiveness of the Department's efforts to promote a viable truck haul industry in Alberta, and the costs and benefits of alternative methods. The consultants' report was released in December 1989.

Alberta Cities Transportation Partnership Program — The Department needs to define the objectives of each part of the program, and to evaluate periodically its success in achieving those objectives.

This \$500 million, 3 year grant program provides financial assistance for developing and maintaining urban transportation systems. Approximately \$122 million was paid out under the program during 1988-89.

Although the Department has defined the projects that are eligible for funding, it has not defined the objectives of the program's various parts. Defining these objectives would help to ensure that the program's overall goals are consistent with the Department's vision of an integrated transportation system.

In addition, without well defined objectives, the Department lacks a basis for evaluating the success of the program. Periodic evaluations could be used, for example, to determine whether all parts of the program remain relevant, and whether there are any unintended negative impacts.

This concern was reported to the Deputy Minister at the conclusion of the 1987-88 audit. In a management letter to the Deputy Minister at the conclusion of the 1988-89 audit, it was again recommended that the Department define the objectives of each part of the program, and assess periodically the extent to which those objectives are achieved.

Reporting construction activities — The Department's staff need to prepare better accountability reports to senior management for the annual construction program and major multi-year projects.

Each year the Department prepares a report on the work done and the money spent on its annual highway construction program. This report, however, does not compare the work completed with the work that was planned and for which money was appropriated.

The Department's reports on major multi-year projects do not always provide information on changes made to the scope of projects. Furthermore, their form and content do not show clearly how accurately the projects were budgeted, how well costs were kept in line with budgets, and whether budget variances were caused by scope amendments.

These concerns were reported to the Deputy Minister at the conclusion of the 1987-88 audit and in my last annual report (section 2.27.1). The Department has since agreed that the accountability reports can be improved and has indicated that new reporting systems will be implemented during 1989-90. Pending implementation, however, in a management letter to the Deputy Minister at the conclusion of the 1988-89 audit, it was recommended that reports on the annual construction program and major multi-year projects be revised to provide more useful and comparative information.

2.26.2 **Transportation Revolving Fund** - year ended March 31, 1989

Audit Observations

Computer system changes — The Department needs to ensure that the Revolving Fund's financial and management controls remain effective when new computer systems and systems changes are implemented.

During 1988-89, several modules of a new Equipment Management System were implemented. As well, the Revolving Fund converted to the Province's DFS/CFS central payments and general ledger system. Numerous financial and management control problems were experienced during these changes, which were compounded by high staff turnover. This turnover meant that knowledgeable staff were not always available to deal with implementation difficulties and to perform routine tasks.

These problems adversely affected the Fund's accounting procedures and controls. For example, reports from which parts and materials and work-in-process inventory balances were posted to the general ledger had different cut-off dates than other reports. There were no procedures in place during the year to evaluate the appropriateness of the standard costs used to value inventories and, as a result, year-end adjustments of approximately \$1.4 million were required in the Fund's annual financial statements. Fixed asset accounts in the general ledger were not reconciled to the assets recorded on the computer system at any time during the year. In addition, no consideration was given to the impact of the new chart of accounts and the new method of allocating charges in the general ledger, on the prior year's amounts in the Fund's financial statements. Preparation of the Fund's 1988-89 financial statements was significantly delayed, and was only completed after considerable assistance from my staff.

The most serious problem caused by the system changes and the staff turnover was that timely, accurate and comparable financial management information was not available on a regular basis. This made it more difficult than usual for management to assess whether the rates charged by the Revolving Fund to the Department were reasonable.

Disruptions caused by system changes contributed to a lack of co-ordination between the Equipment Supply and Services Branch which administers the Revolving Fund, and the Financial Services Branch. As a result, important operational information was not always exchanged between the Branches, and some of the financial information produced by the Financial Services Branch was incomplete and unreliable. I acknowledge, however, that since the audit was completed, the two Branches have drawn up a plan that should assist in co-ordinating their activities.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department control the implementation of new systems so that financial and management controls remain in effect when such systems are implemented.

2.26.3 Financial audits of the following were also completed:

Alberta Electric Energy Marketing Agency - year ended March 31, 1989
Alberta Resources Railway Corporation - year ended December 31, 1988
Gas Alberta Operating Fund - year ended March 31, 1989
Natural Gas Rebates Fund - year ended March 31, 1989
Rural Electrification Revolving Fund - year ended March 31, 1989

2.27 **LOTTERY OPERATIONS, IRRIGATION DISTRICTS AND AUDITS UNDER SECTION 12(b) OF THE AUDITOR GENERAL ACT**

Of the matters reported to management, the observations below were selected for inclusion in this report.

2.27.1 **Lottery operations**

Audit Observations

Legislative non-compliance — The Province's lottery revenues and costs are not being handled as required by current legislation. Furthermore, the Lottery Fund, which receives and disburses the Province's net lottery earnings, is not being administered as required by the Financial Administration Act.

The Province's lottery revenues have been handled for many years by the Western Canada Lottery Corporation of Winnipeg. Under a licence issued pursuant to Alberta's Interprovincial Lottery Act, the Corporation receives the Province's lottery revenues, and pays therefrom prize money and costs. Until recently, the Corporation also paid grants to various non-profit and other agencies when instructed to do so by the Minister responsible for lotteries. A summary statement of these expenditures is published each year in the public accounts of the Province.

In my last five annual reports, I expressed concern about the legislative authority for handling the Province's lottery monies. The Financial Administration Act requires all monies receivable by the Province to be paid into the General Revenue Fund, and all expenditures to be paid from appropriations from that Fund, unless specific authority to do otherwise is provided by an Act of the Legislature. The Interprovincial Lottery Act, however, did not contain this specific authority. Accordingly, a licence issued pursuant to the Act could not authorize lottery monies to remain outside of the General Revenue Fund.

In May 1989, the Lottery Fund was established following proclamation of the Interprovincial Lottery Amendment Act, 1988. Since then, Western Canada Lottery Corporation has continued to collect most of Alberta's lottery revenues, and has deducted therefrom prize monies plus the costs of operating the lottery schemes and administering Alberta's Lottery Fund. The balance remaining, being the net lottery earnings, is then forwarded for deposit to the Lottery Fund, out of which the Minister authorizes grants to be paid.

In my 1987-88 annual report, I stated that the Amendment Act, when proclaimed, would eliminate my previously reported concerns. However, legal advice recently received concludes that the Act provided only a partial solution to my concerns and that most of the problems remain.

I had assumed that the costs of administering the Lottery Fund would be paid from a supply vote, however, they are being paid by the Western Canada Lottery Corporation. As such, they are not subject to the legislative control and accountability processes prescribed for public monies by the Financial Administration Act.

The Amendment Act provides authority for net lottery earnings to remain outside the General Revenue Fund, and for grants to be paid therefrom. However, the lottery revenues used to pay the marketing costs, the Corporation's operating costs, including prizes, and the costs of administering the Lottery Fund are all public money. As the legislation stands, they should all pass through the General Revenue Fund and be subject to normal budgetary and disbursement controls.

In a management letter to the Deputy Minister of Public Works, Supply and Services at the conclusion of the audit, I made the following recommendation:

Recommendation No. 38

It is recommended that the Minister responsible for administering the Interprovincial Lottery Act comply with prevailing legislation by making arrangements with the Western Canada Lottery Corporation to:

- transfer all Alberta's lottery revenues directly to the Province for deposit to the General Revenue Fund,
- receive funds under the authority of a supply vote to cover all costs of operating Alberta lotteries, including the cost of prizes, and
- transfer net lottery proceeds from the General Revenue Fund to the Lottery Fund.

It is further recommended that the costs of administering the Lottery Fund also be paid under the authority of a supply vote.

Lottery Fund — The Lottery Fund is a regulated fund and the Minister responsible for lotteries is the fund administrator. Accordingly, in the absence of Orders in Council authorizing otherwise, all provisions of the Financial Administration Act that apply to regulated funds apply to both the Lottery Fund and the fund administrator.

The Lottery Fund's first financial statements will be for the accounting period ending March 31, 1990. These of course have yet to be audited, however, certain of the Financial Administration Act's requirements for regulated funds are not being complied with. Accounting officers have not been appointed and are not operating as required by section 35(2)(a) of the Act, and cheque signatories have not been approved as required by section 36(1)(h).

In a management letter to the Deputy Minister of Public Works, Supply and Services at the conclusion of the audit, I made the following recommendation:

Recommendation No. 39

It is recommended that the Minister responsible for administering the Interprovincial Lottery Act ensure that the Lottery Fund is administered in accordance with the provisions of the Financial Administration Act.

2.27.2 Irrigation Districts

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1988-89 fiscal year. The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, their audited financial statements are not published in the public accounts of the Province.

2.27.3 Section 12(b) Audits

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Select Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1988-89 fiscal year, the Audit Office audited the financial statements of the following pursuant to section 12(b):

ACCESS Charitable Foundation of Alberta
Alberta Children's Hospital Research Centre
Charles Camsell Provincial General Hospital Volunteer Association
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Staff Benevolent Fund
University of Alberta Hospitals Staff Charities Fund

Audit Observations

Reservations in audit reports — My reports on the financial statements of

Foothills Hospital Foundation,
Grande Prairie Regional College Foundation,
Olds College Foundation, and
Sulphur Development Institute of Canada (SUDIC)

contained reservations of opinion because, as explained in section 3.2.2 of this report, they receive donation or similar revenue which is not susceptible of complete audit verification.

SECTION 3 - REPORTING CRITERIA, RESERVATIONS AND PUBLIC ACCOUNTS

3.1 REPORTING CRITERIA AND TYPES OF AUDIT

3.2 RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS

3.3 AUDIT OF THE PUBLIC ACCOUNTS

3.4 CONSOLIDATED OPERATING STATISTICS

3.5 COMMENTARY ON THE PUBLIC ACCOUNTS

3.1 REPORTING CRITERIA AND TYPES OF AUDIT

3.1.1 Section 25 of the Auditor General Act allows me to exclude from this report matters which are, in my opinion, immaterial or insignificant. My reporting on the work of the Audit Office is, thereby, focussed on the more significant matters. When determining significance, I take into account the nature, materiality, and sensitivity of the matter relative to the individual entity and the Government as a whole.

Recommendations arising from the work of my Office which I particularly want to bring to the attention of the Legislative Assembly are numbered and shown in bold type.

Communication of Audit Observations

3.1.2 The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

At the conclusion of all audits, meetings (exit conferences) were held to discuss audit findings and concerns. The nature of the matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, observed instances of non-compliance with legislative and other authorities, system deficiencies, control weaknesses, and related recommendations. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entity.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations for corrective action, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office to all who attended, thereby minimizing the risk of any misunderstanding concerning observations raised and action promised.

Audit observations and recommendations judged to be of concern to senior management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies which are referred to in section 2(5) of the Financial Administration Act.

Subsequently, using the criteria outlined in 3.1.1 above, the observations and recommendations considered important enough to be reported to the Legislative Assembly were selected for inclusion in this report. Finally, before the annual report was published it was made available to the Audit Committee, and all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

Government Responses

3.1.3 The Provincial Treasurer on behalf of the Government has prepared a report, dated October 1989, addressed to the Standing Committee on Public Accounts which contains responses to the numbered recommendations in my report for the 1987-88 fiscal year.

Non-compliance with Legislative Authorities

3.1.4 Non-compliance with legislative authorities is reported in this report pursuant to sections 19(2)(a) and (b) of the Auditor General Act.

All transactions and activities examined in the course of auditing departments, funds and Provincial agencies in accordance with generally accepted auditing standards are also examined to determine whether they comply with the significant financial and administrative authorities that govern

them. These authorities include primary authorities such as statutes, and subordinate authorities emanating therefrom such as regulations. Orders in Council, contracts and conditional grant agreements.

In my opinion, except for the instances of non-compliance described in this report, those transactions and activities examined in the course of auditing departments, funds and Provincial agencies complied, in all significant respects, with relevant financial and administrative authorities. The instances of non-compliance reported herein are only those that were observed and which I believe are significant enough to be brought to the attention of the Legislative Assembly. They should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not examined.

Types of Audit

3.1.5 Throughout section 2 of this report, the term "financial audit" is used repeatedly. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work includes examining systems beyond what is considered necessary to support the expression of an opinion on the financial statements. The additional audit work is identified in section 2 of this report. All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1988-89 have been reported to management.

3.2 RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS

3.2.1 Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. For 1988-89, fourteen such reservations were issued; viz:

3.2.2 Twelve reservations of opinion were because the financial statements of:

- Alberta Cancer Foundation,
- Alberta Hospital Edmonton Foundation,
- Alberta Sport Council,
- Foothills Hospital Foundation,
- Glenbow-Alberta Institute,
- Grande Prairie Regional College Foundation,
- Northern Alberta Children's Hospital Foundation,
- Olds College Foundation,
- Sulphur Development Institute of Canada (SUDIC),
- The Alberta Educational Communications Corporation,
- The Recreation, Parks and Wildlife Foundation, and
- University Hospitals Foundation

include donations or similar revenue which cannot be audited for completeness in accordance with generally accepted auditing standards.

These reservations of opinion do not reflect adversely on the records or financial statements of the above entities. Rather, they are a product of the nature of the revenue. For most types of revenue, an auditor can calculate or anticipate the completeness of recorded revenue by reference to the auditee's records, or by independent verification. Where donations and certain other types of revenue are received from the public in significant or potentially significant amounts, however, auditors can often do no more than examine the amounts that are recorded as received. They cannot verify that all such revenue received has been recorded.

In these circumstances, generally accepted auditing standards require auditors to express a reservation of opinion on the financial statements by drawing attention to the nature of the revenue and describing the limited audit work that was possible.

- 3.2.3 One reservation of opinion was because the financial statements of the Alberta Heritage Savings Trust Fund are not prepared in accordance with acceptable accounting principles. As discussed more fully in section 2.2.4 of this report, the practice of including deemed assets, and deemed equity represented by deemed assets, on the Heritage Fund's balance sheet is not appropriate, nor is the presentation in accordance with generally accepted accounting principles. Deemed assets are not assets of the Heritage Fund.
- 3.2.4 One reservation of opinion was because the financial statements of the Improvement Districts' Trust Account did not include certain assets and liabilities that had been transferred to the Trust Account from municipalities.
- 3.2.5 In all other cases, I was able to report without reservation that the financial statements examined present fairly the financial position of the entities at March 31, 1989, or such other accounting period ended within the year ended March 31, 1989, and the results of their operations and the changes in their financial position for the period covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

3.3 AUDIT OF THE PUBLIC ACCOUNTS

- 3.3.1 The public accounts of the Province are published in one volume. The volume contains, together with the Auditor General's reports thereon, the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund, details of expenditures and revenues by department, and the financial statements of revolving funds, regulated funds and Provincial agencies. Some other statements and reports are included to comply with the Financial Administration Act and other statutes.

In addition, a separate volume containing details of expenditures by payee is published as supplementary information.

3.3.2 The Auditor General's report on the Province's 1988-89 consolidated financial statements was as follows:

AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1989 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 1 to the consolidated financial statements applied on a basis consistent with that of the preceding year.

Donald D. Salmon, FCA
Auditor General

Edmonton, Alberta
November 3, 1989

3.3.3 The above report covers the consolidated financial statements of the Province. A similar auditor's report was issued (see section 2 of the public accounts) on the financial statements of the General Revenue Fund and the detailed information of departmental expenditures and revenues (see section 3 of the public accounts). The volume of supplementary information containing details of expenditure by payee is not covered by these reports since it is not an integral part of public accounts.

The above Auditor's Report, together with the overall assessment in section 1.1.2 of this report, is the culmination of most of the work done each year by the Audit Office. In effect, however, the report covers more than just the consolidated financial statements and the consolidation process. It also covers the 1988-89 audits of the various consolidated entities. These include the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately eighty-five Provincial agencies and other funds (see the Index).

These audits, together with the annual audits of the universities, colleges, technical institutes, hospitals, irrigation districts and trust funds are performed as explained in section 4.3 of this report, which describes the audit approaches employed.

3.4 CONSOLIDATED OPERATING STATISTICS

3.4.1 The consolidated financial statements of the Province are an aggregation of most, though not all, of the entities administered and owned by the Province of Alberta. They combine the operating results and financial positions of the Province's General Revenue Fund, the Alberta Heritage Savings Trust Fund and the other entities whose financial statements are published in sections 4 through 7 of the public accounts.

The consolidation, however, does not include the Provincially-owned universities, colleges, technical institutes, hospitals and related funds. The reasons for their exclusion and the Auditor General's comments thereon are explained in section 2.2.1 of this report.

Consolidation Methods

3.4.2 The 1988-89 consolidated financial statements, published by the Province, report on its financial condition and results of operations. They serve as a principal means of communicating financial information to those not involved in the Province's financial administration.

The financial statements of the General Revenue Fund (GRF) are sometimes inappropriately used for reviewing the Province's overall financial condition and operating results. Note 4 to the General Revenue Fund financial statements points out that the GRF does not include deficits incurred by Provincial agencies, regulated funds and commercial enterprises. For this reason, the consolidated financial statements are more appropriate for reviewing the Province's financial affairs.

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants is working to improve public sector financial reporting practices. Its latest Accounting Statements concern the Government Reporting Entity, and Accounting for Pension Obligations. I have discussed these Statements and made recommendations in section 2.2.1 of this report.

The Province is, therefore, reporting on its financial condition and operating results in a world of evolving standards. What was generally accepted until recently is being debated today and will likely be improved upon tomorrow. For example, PSAAC will be considering how physical assets should be accounted for by governments and what information should be reported in their financial statements, following release of a study on these matters. PSAAC is also working on accounting for government transfers. Government transfers are one of the largest expenditure and revenue items reported in government financial statements. 40-60% of the federal and provincial governments' expenditures are transfers to individuals, local governments, institutions or other organizations.

3.4.3 The consolidated financial statements show that for the 1988-89 fiscal year, the Province recorded a consolidated net expenditure, i.e. an annual deficit of \$2,015 million (1987-88 - \$1,415 million). They also show that at March 31, 1989, the consolidated net assets of the Province, i.e. the accumulated surplus, was \$5,067 million (March 31, 1988 - \$7,082 million).

These figures should be viewed in the context of the evolving standards that I have mentioned above.

For example, as indicated in section 2.2.1, the consolidation does not include the financial statements of the Provincially owned universities, colleges, technical institutes, and hospitals. If the recorded net assets (excluding fixed assets) of these entities were included in the consolidation, the Province's accumulated surplus at March 31, 1989 would be increased by approximately \$200 million.

In addition, most of the Province's fixed assets are excluded from the consolidation. This means that the accumulated surplus at March 31, 1989 does not include the value of land (except that held for rental and resale), buildings, equipment, fixtures and furniture owned by the Province, or the renewable and non-renewable resources. Similarly, the accumulated surplus does not include the value of inventories of consumable supplies and materials at March 31, 1989. The effect of these accounting policies is that the costs of fixed assets and consumable inventories are treated as

expenditures in the fiscal years in which they are acquired, rather than in the years in which they are consumed or the benefits from their acquisition are realized.

Regardless of the valuation method used, it is obvious that including all of the Province's assets in the consolidated statements would increase significantly the Province's accumulated surplus at March 31, 1989.

Another accounting policy that has significant impact on the accumulated surplus is the method used to account for the Province's pension plan liabilities. As explained in section 2.2.1 of this report, the unrecorded portion of the Province's pension plan liabilities is disclosed in a note to the consolidated financial statements. Hence, it is not included in the computation of the accumulated surplus. Depending on the assumptions made in calculating the liability, including the full liability for pension plan obligations would reduce the Province's accumulated surplus at March 31, 1989 by approximately \$8.6 billion.

3.4.4 The Province's consolidated operating results for the three years ended March 31, 1989 were as follows:

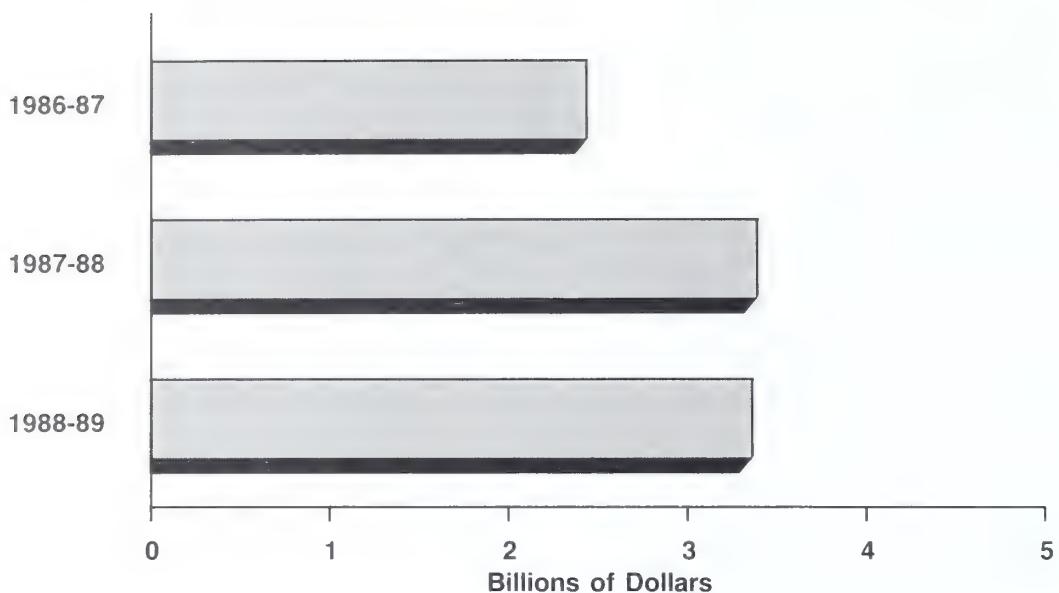
	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
	<u>(Millions of Dollars)</u>		
Revenue	\$ 9,070	\$11,322	\$11,228
Expenditure	<u>13,143</u>	<u>12,737</u>	<u>13,243</u>
Annual deficit	(4,073)	(1,415)	(2,015)
Accumulated surplus at beginning of year	<u>12,570</u>	<u>8,497</u>	<u>7,082</u>
Accumulated surplus at end of year	<u>\$ 8,497</u>	<u>\$ 7,082</u>	<u>\$ 5,067</u>

3.4.5 Consolidated revenue comprises:

Taxes	\$ 2,427	\$ 3,384	\$ 3,361
Non-renewable resource revenue	1,892	2,630	2,138
Payments from Government of Canada	1,642	1,861	2,080
Investment income	1,965	1,848	1,834
Fees, permits and licenses	520	601	651
Net profits from commercial operations	160	317	434
Other	464	681	730
	<u>\$ 9,070</u>	<u>\$11,322</u>	<u>\$11,228</u>

3.4.6 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated revenue during the three years ended March 31, 1989:

Taxes



Tax revenue decreased by \$23 million or 0.7% in 1988-89 compared to the previous year.

The main reason for the 1988-89 decrease was a decrease of \$197 million in personal income tax. The decrease was primarily due to a reduction of 0.5% in flat rate tax on personal income effective January 1, 1988.

The above decrease was offset by:

- an increase in fuel tax of \$101 million, primarily as a result of a 5 cents a litre tax on fuel oil which was in effect for a full rather than partial year.
- an increase in corporate tax of \$46 million, caused primarily by the continued effect of the increase in rate to 15% from 11% for large corporations not entitled to small business deduction (effective April 1, 1987).

Non-Renewable Resource Revenue

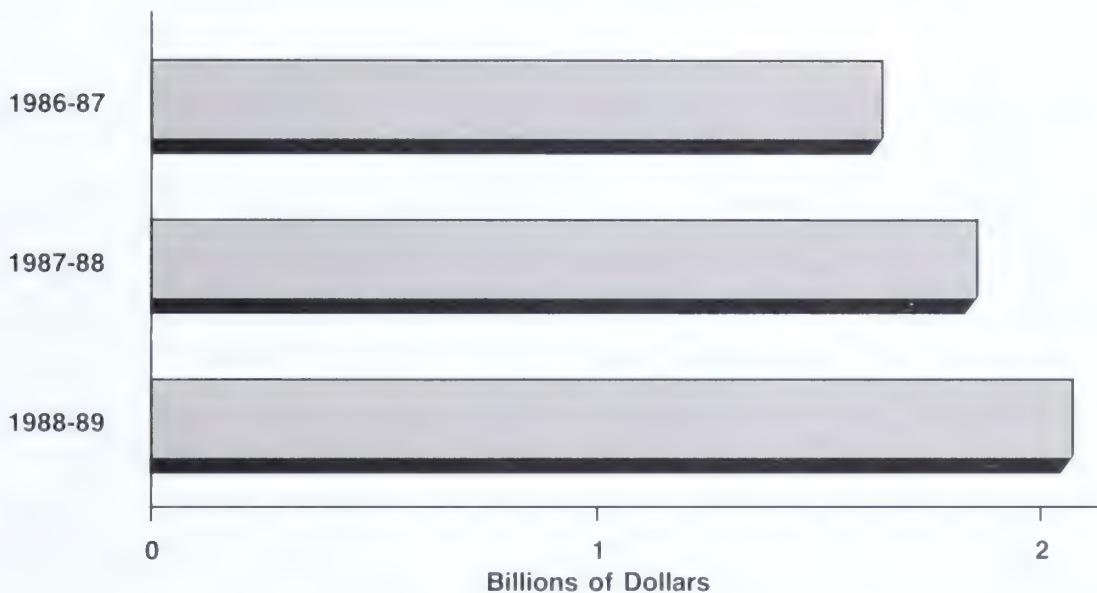


Non-renewable resource revenue decreased by \$492 million or 18.7% in 1988-89 compared to the previous year. The main reasons for the 1988-89 decrease were:

- crude oil royalty decreased by \$397 million due to the drop in oil prices. The Provincially-determined price used in the calculation of royalty averaged \$115.81 per cubic metre compared to \$147.58 for the previous year.
- bonuses and sales of Crown leases decreased \$312 million primarily due to the price per hectare from 1988 to 1989.

The above decreases were offset by the discontinuance of the drilling, well servicing and geophysical incentives program, the \$197 million cost of which was deducted from non-renewable resource revenue in 1988.

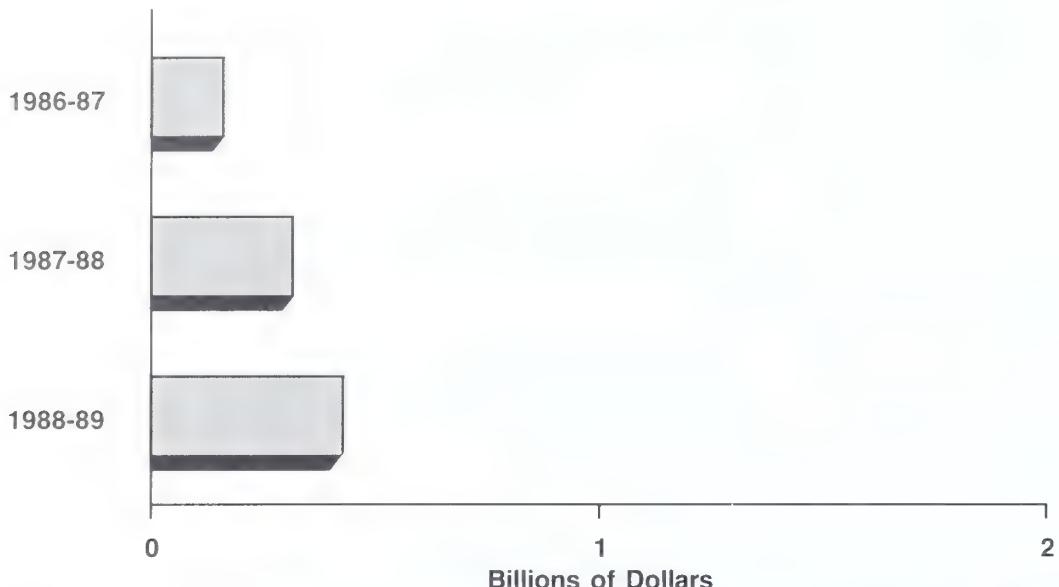
Payments from the Government of Canada



Payments from the Government of Canada increased by \$219 million or 11.8% in 1988-89 compared to the previous year. The main reasons for the 1988-89 change were:

- an increase of \$112 million relating to Established Programs Financing because of changes in gross national product and tax transfer points that affect the allocation.
- an amount of \$75 million was accrued as receivable at March 31, 1989, to reflect the receipt from the Federal Government after the year end of the first installment against Alberta's claim of \$539 million for fiscal stabilization for the 1986-87 fiscal year.
- an increase of \$41 million in funding for crop insurance due to the increased indemnities expenditure of the Alberta Hail and Crop Insurance Corporation in 1988-89.

Net Profits from Commercial Operations



Net profits from commercial operations increased by \$117 million or 36.9% in 1988-89 compared to the previous year.

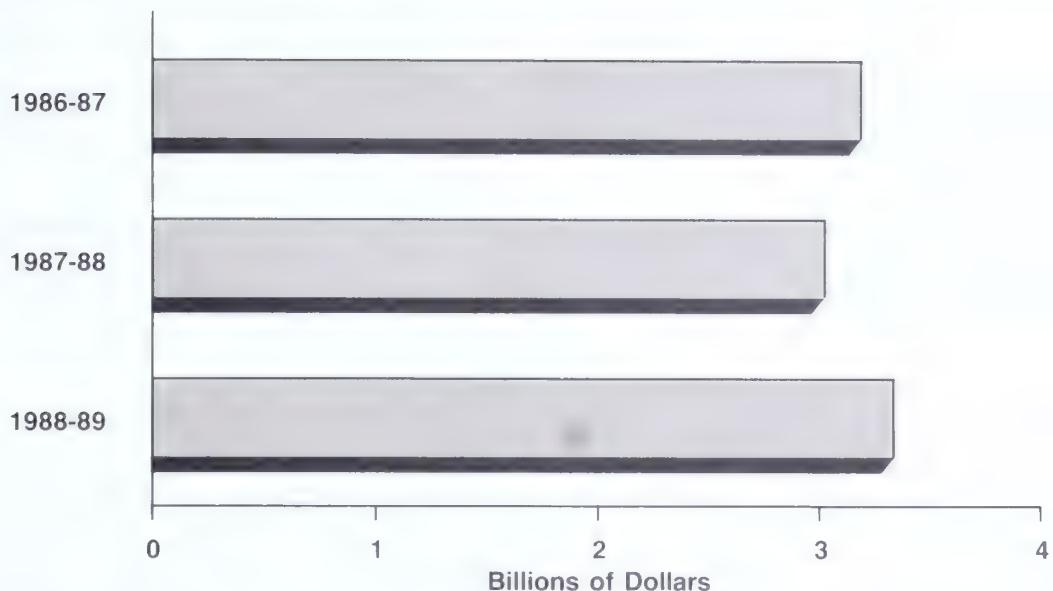
The main reason for the 1988-89 change was a decrease of \$65 million in the operating deficit of The Workers' Compensation Board, a decrease of \$19 million in the net deficit of the Treasury Branches Deposits Fund, and an increase of \$21 million in the net income of The Alberta Government Telephones Commission.

3.4.7 Consolidated expenditure comprises:

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
	<u>(Millions of Dollars)</u>		
Health	\$ 3,177	\$ 3,057	\$ 3,330
Education	2,673	2,645	2,710
Resource conservation and economic development	1,757	1,516	1,559
Social Services	1,270	1,329	1,402
General government	857	1,002	1,171
Transportation and utilities	1,320	1,176	1,150
Regional planning and development	798	813	842
Protection of persons and property	442	461	455
Environment	193	175	221
Recreation and culture	237	205	191
Housing	189	122	109
Valuation adjustments	230	236	103
	<u>\$13,143</u>	<u>\$12,737</u>	<u>\$13,243</u>

3.4.8 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated expenditure during the three years ended March 31, 1989:

Health

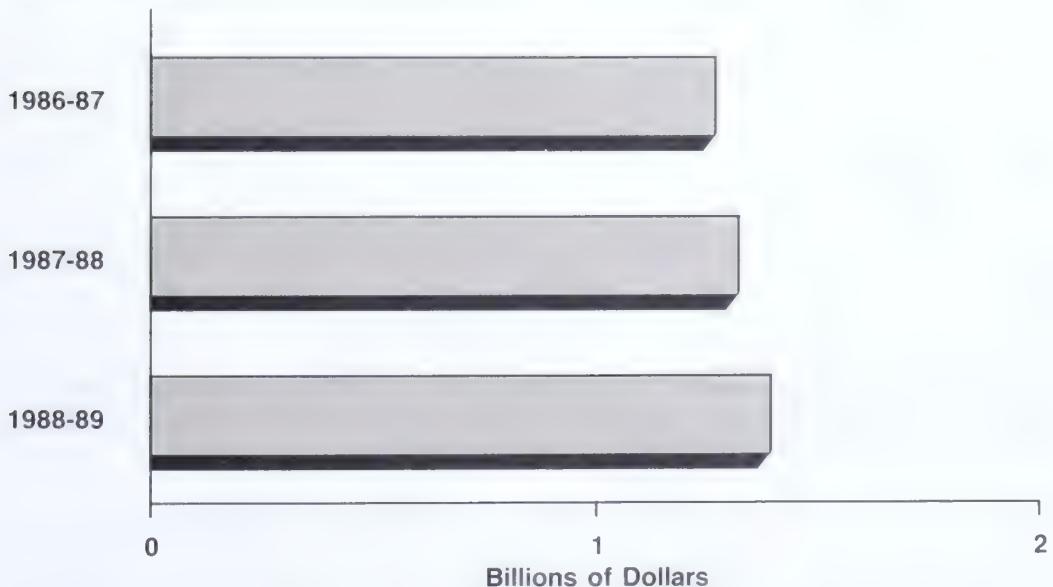


Health expenditure increased by \$273 million or 8.9% in 1988-89 compared to the previous year.

The main reasons for the 1988-89 increase were:

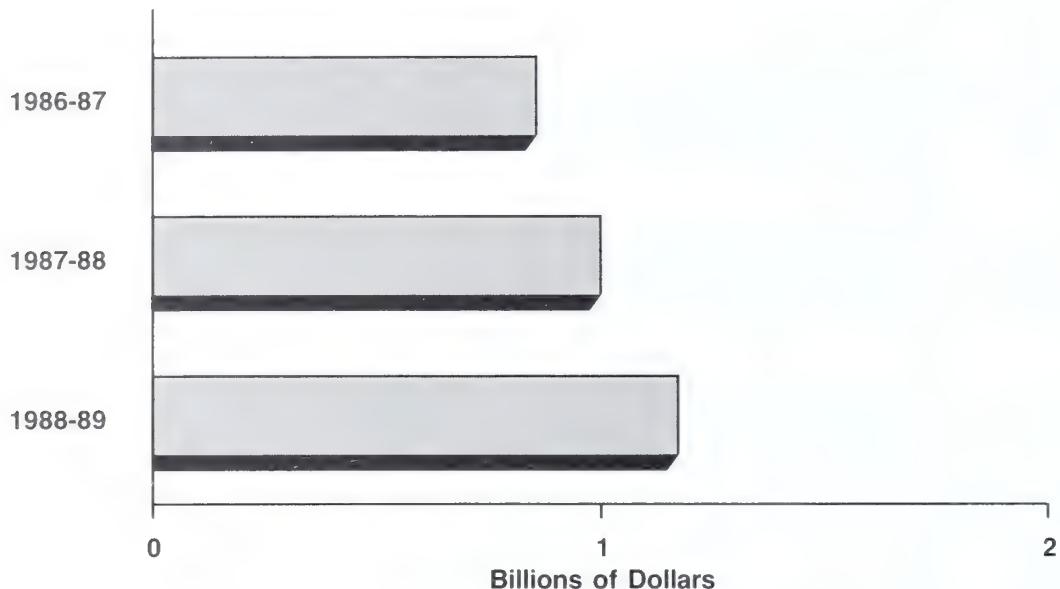
- operating grants for Financial Assistance for Active Care and for Long-Term Care increased by \$142 million (10.3%) and \$42 million (11.7%), respectively. Increased operating grants were required to cover the cost of contractual employee salary and benefit settlements. Recent capital construction completion also resulted in increased operating costs.
- expenditures of the Health Care Insurance Fund increased by \$69 million (8.0%). Medical service utilization and fee increases were the major cause of this increase.

Social Services



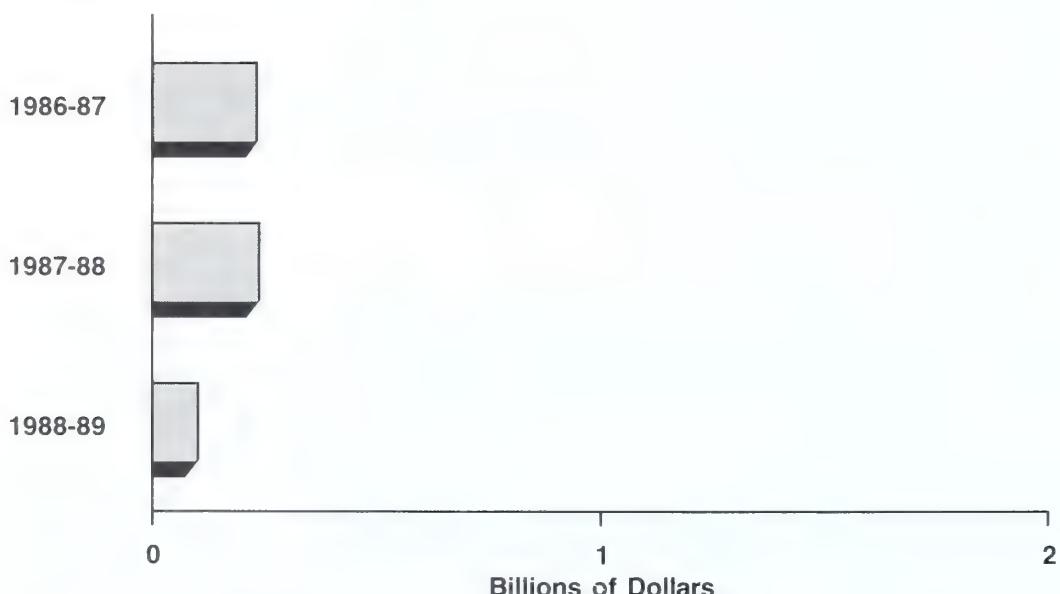
Social Services expenditure increased by \$73 million or 5.5% in 1988-89 compared to the previous year. The main reason was the increase of \$56 million in income support to individuals and families.

General Government



General Government expenditure increased by \$169 million or 16.9% in 1988-89 compared to the previous year. The main reason was an increase in debt servicing costs.

Valuation Adjustments



Valuation adjustments decreased by \$133 million or 56.4% in 1988-89 compared to the previous year. The main reason for this was a reduction in the provision for losses on the mortgages and loans of the Alberta Mortgage and Housing Corporation.

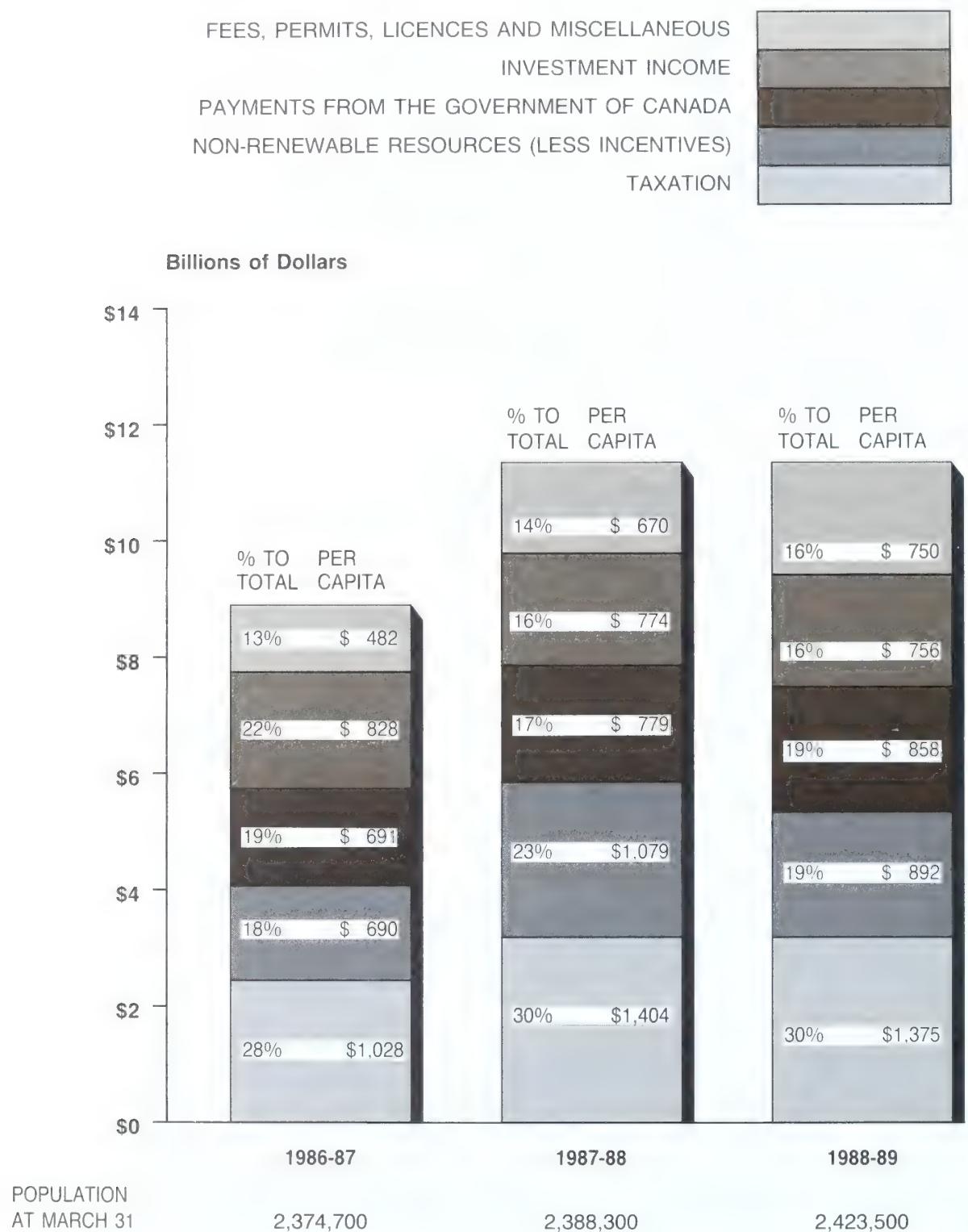
3.4.9 The financial information in the public accounts is displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. The following charts display some of the same financial information in an alternative and simplified manner, and are included in this report pursuant to subsection 19(3)(b) of the Auditor General Act.

In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than the basis used in the public accounts. For example, in the charts freehold mineral tax is included in non-renewable resource revenue, whereas in the public accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, petroleum incentive program grants, and geophysical and exploratory drilling incentives. In the public accounts, royalty tax rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as resource conservation and economic development expenditures.

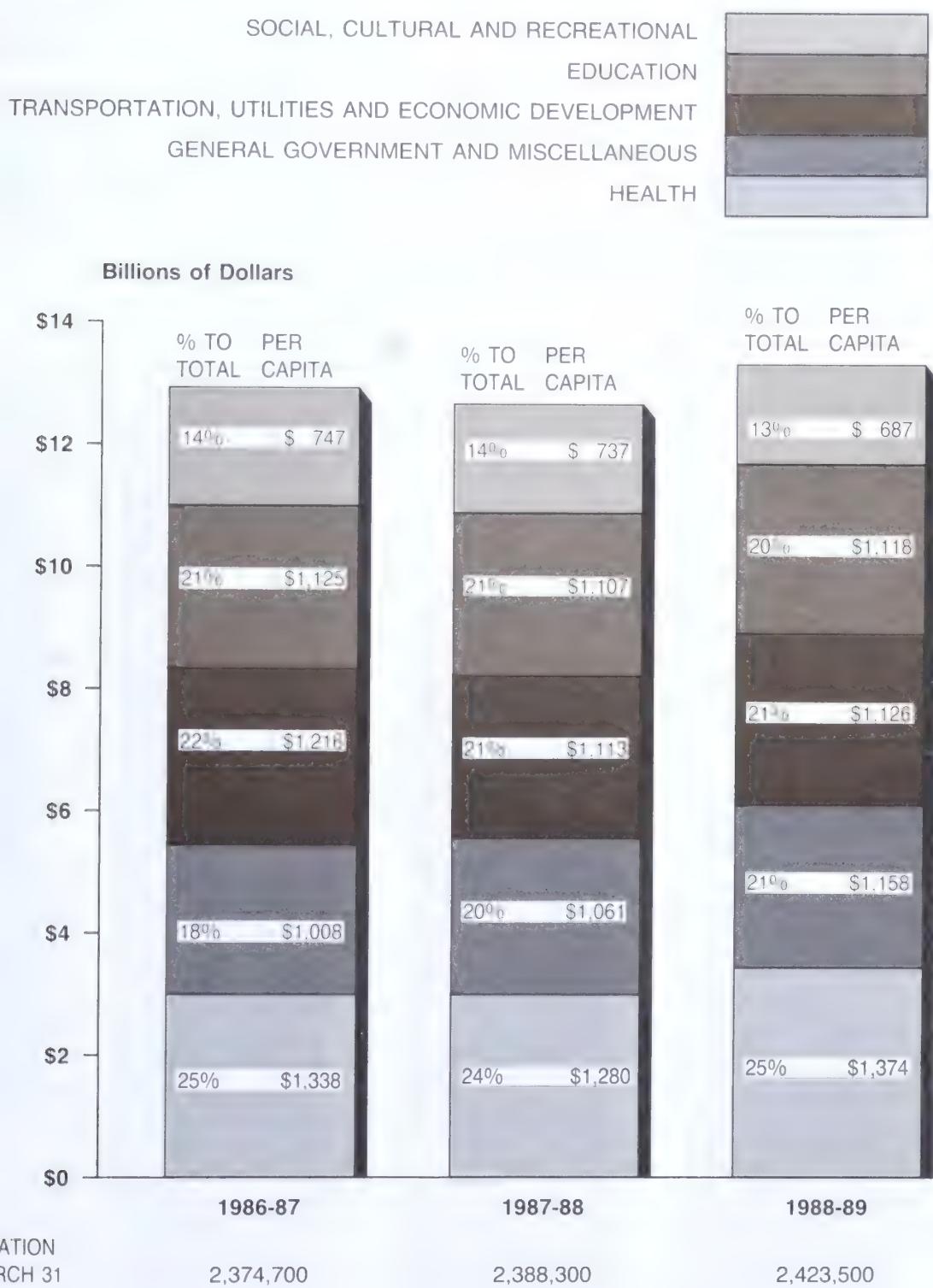
Prior years' figures have been reclassified where necessary to conform to the 1988-89 presentation.

Population figures in the charts are per the Alberta Bureau of Statistics. The figures at March 31, 1987, 1988, and 1989, are postcensal estimates.

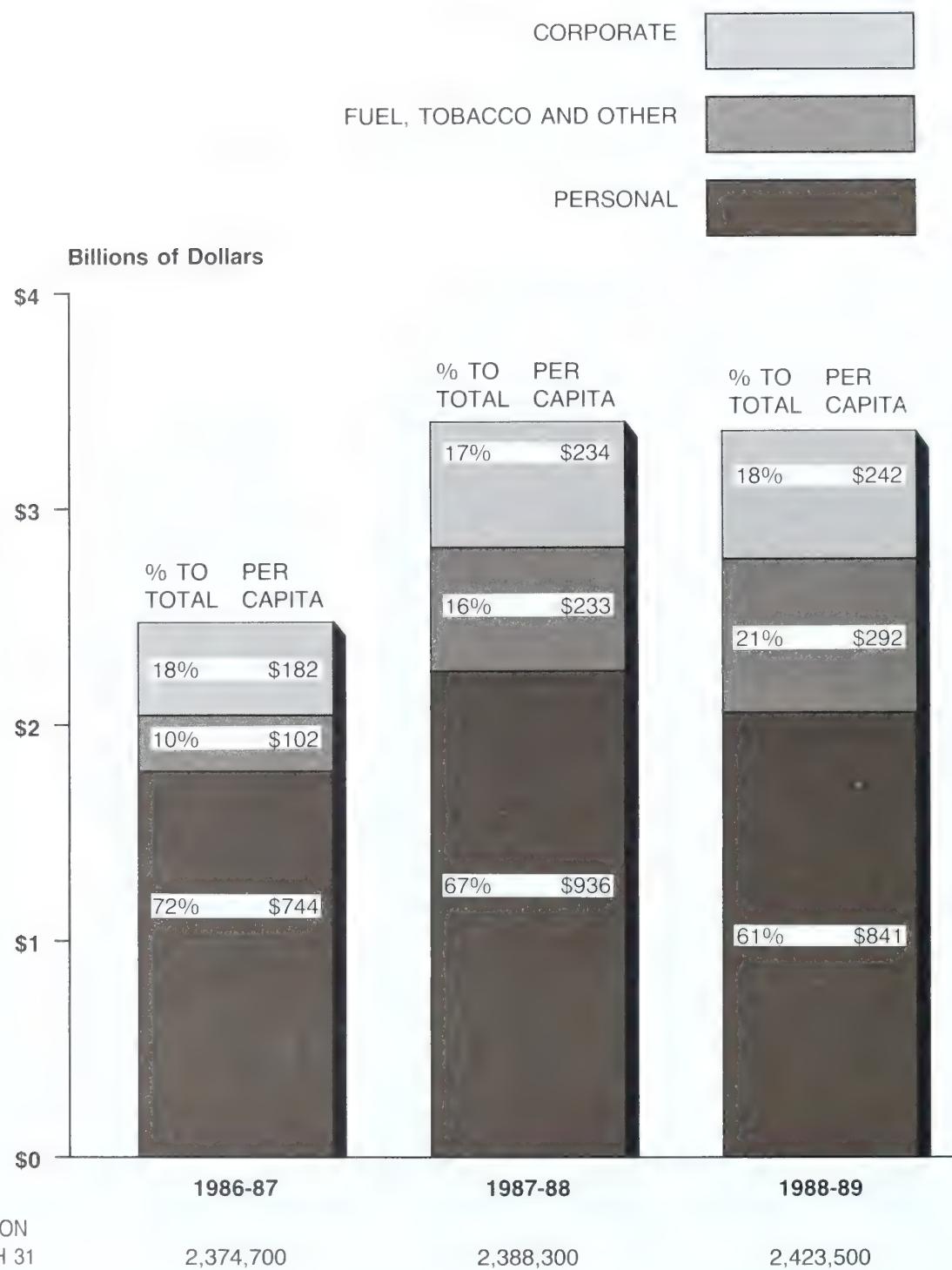
3.4.10 The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years.



3.4.11 The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years



3.4.12 The following chart shows the sources of taxes, the percentage of each source to total taxes, and taxes per capita, for the past three years.



3.4.13 The following chart shows non-renewable resource revenue for the past three years.

GROSS REVENUE BEFORE INCENTIVE COSTS:

— MISCELLANEOUS



— OIL ROYALTY



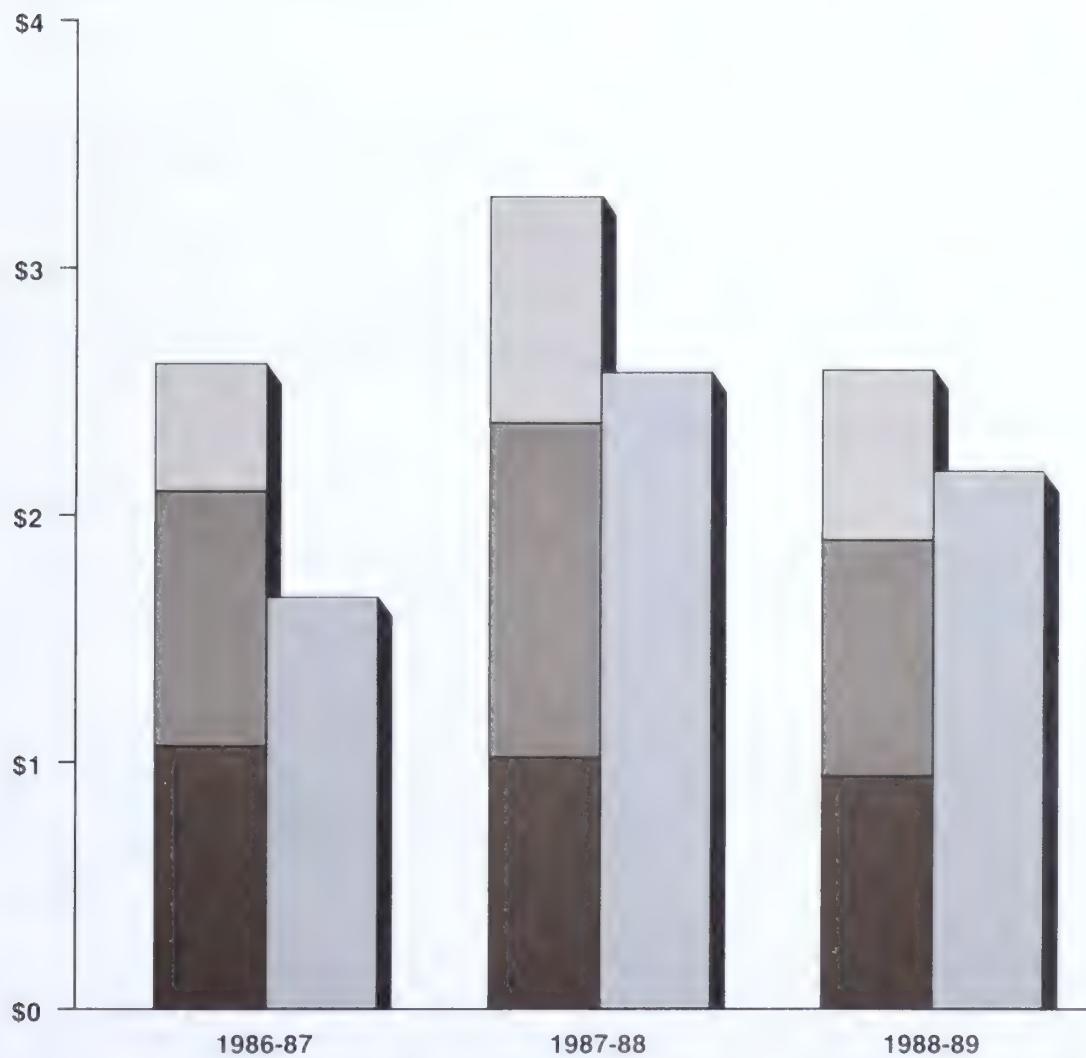
— GAS ROYALTY



NET REVENUE AFTER INCENTIVE COSTS



Billions of Dollars



SECTION 4 — THE AUDIT OFFICE

Reported pursuant to section 19(1)(a) of the Auditor General Act

4.1 ROLE OF THE AUDITOR GENERAL

4.2 REPORTING RESPONSIBILITIES

4.3 AUDIT APPROACHES

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.1 LEGISLATIVE MANDATE

4.1.1 The Office of the Auditor General of Alberta was established in 1978 and operates pursuant to the Auditor General Act (Appendix I). As Auditor General, I am auditor of all Alberta's government departments, funds and Provincial agencies.

The Act deals with my responsibilities by prescribing what I can and must report, to whom, and when. I am empowered to report to the Legislative Assembly under sections 18, 19 and 20 of the Act, and to management under section 28 of the Act. In addition, I can issue specially requested reports from time to time under section 17 of the Act.

Section 18 Reports

4.1.2 In section 18 reports, I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown. Reports of this nature are similar to reports issued by auditors on the financial statements of private sector organizations.

The section 18 report on the Province's 1988-89 consolidated financial statements is dated October 13, 1989 and is reproduced in section 3.3.2 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the public accounts of the Province.

Section 19 Reports

4.1.3 Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. The Act empowers me to include in these reports audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 20 Reports

4.1.4 In reports issued under section 20 of the Act, I can report to the Legislative Assembly on any matters of importance or urgency which, in my opinion, should not be delayed until my next annual report.

No reports were issued under section 20 of the Act during the fiscal year ended March 31, 1989.

Section 28 Reports

4.1.5 Reports issued under section 28 of the Act are more commonly referred to as management letters. The purpose of management letters, as explained more fully in section 3.1.2 of this report, is to communicate to management system weaknesses and deficiencies and other concerns observed during audits.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. Copies of most management letters are sent to the ministers responsible for the audited entities, except for Provincial agencies referred to in section 2(5) of the Financial Administration Act. In accordance with section 27 of the Auditor General Act, management letters are not made available to the Legislative Assembly or its select standing committees.

Section 17 Reports

4.1.6 Under section 17 of the Auditor General Act, the Legislative Assembly and the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1988-89 fiscal year, I received no requests from the Legislative Assembly or the Executive Council to perform special duties pursuant to section 17.

Standing Committee on Legislative Offices and the Audit Committee

4.1.7 Reports issued under sections 19 and 20 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee are:

Mr. R. J. Bogle, MLA	Chairman
Mr. S. K. Nelson, MLA	Deputy Chairman
Mr. J. W. Ady, MLA	
Mr. J. Drobot, MLA	
Mr. D. Fox, MLA	
Mrs. Y. Gagnon, MLA	
Mr. A. W. Hyland, MLA	
Mr. T. Sigurdson, MLA	
Mr. D. Tannas, MLA	

I acknowledge the rapport with this Committee that has enhanced the Audit Office's accountability to the Legislature.

Before being tabled, however, my reports under section 19 and 20 of the Act are made available to an Audit Committee established under section 21 of the Act. The members of the Audit Committee, all of whom are appointed by Order in Council, are:

Mr. William G. Stephen, FCA Chairman
Partner
Stephen Johnson, Chartered Accountants
Calgary

Mr. Elvin A. Christenson, FCA
Retired partner
Peat Marwick Thorne, Chartered Accountants
Edmonton

Mr. William D. Grace, FCA
Partner
Price Waterhouse, Chartered Accountants
Edmonton

His Honour Clare L. Liden
Assistant Chief Judge
Provincial Court of Alberta

Mr. Fred R. N. Snell, CA
Partner
Ernst & Young, Chartered Accountants

The Hon. Dick Johnston, FCA
Provincial Treasurer of Alberta

I acknowledge the contribution of the Audit Committee.

4.2 MISSION STATEMENT

4.2.1 The reports I issue have several purposes. Reports on financial statements, for example, provide assurance as to whether the financial information is reliable. In other words, they add credibility to that information. Management letters, however, alert readers to concerns raised during audits and contain recommendations for eliminating them. In other words, they are designed to bring about beneficial improvements.

These dual reporting purposes are reflected in the mission statement that my staff and I have developed to guide the work of the Audit Office:

The mission of the Office of the Auditor General of Alberta is to add credibility to the Government's financial reporting and to improve the financial administration of the Province.

Adding Credibility

4.2.2 A major role of all auditors is to provide assurance whether financial information is reliable. In the private sector, auditors provide assurance to shareholders of corporations that the financial statements issued by management are presented fairly. Similarly, in the Canadian public sector, most legislative auditors provide assurance to their legislative bodies that the financial and other accountability information issued by governments is presented fairly.

To appreciate the significance of this role, it is necessary to appreciate the importance of accountability. Accountability is the process by which governments are "held accountable" for complying with, and not exceeding, the authorities provided directly or indirectly by their legislative bodies. These authorities include statutes, Orders in Council, regulations, ministerial orders, policy directives, corporation by-laws and, at the indirect level, contracts, agreements and administrative manuals.

By providing authorities and requiring compliance with them, legislative bodies control the administration of their jurisdictions. Periodically, the individuals and entities who receive these authorities must report back on how the authorities were exercised. The form of these accountability reports depends on the nature of the authorities provided.

4.2.3 Accountability reports are also used frequently as a basis for policy decisions. Hence, it is important that the information reported is accurate and stated fairly. The work of independent legislative auditors, therefore, adds credibility to accountability reports and provides assurance to legislators that their decisions are based on reliable information.

The auditor's role, in this regard, can be illustrated by describing the accountability process as it relates to the Province's annual expenditure Appropriation Acts. Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. After the estimates have been formally approved by the Legislature, the Government and its administrators are responsible for their implementation.

In this way, the Assembly delegates authority to the Government to disburse funds for approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved. This authority carries with it a responsibility to report back to the Legislative Assembly on how the funds and resources were administered.

4.2.4 The most important financial accountability information tabled in the Legislative Assembly is the annual public accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer.

Each set of financial statements in the public accounts is covered by an auditor's report. These reports state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the organization, in accordance with the disclosed basis of accounting. Because of my independent status and position as an Officer of the Legislature, such reports add credibility to the accountability information contained in the public accounts.

4.2.5 Financial accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the Members of the Assembly in conducting in-depth examinations of the Government's management and control of public resources. Here again, the work of the Audit Office affects the accountability process. My annual reports are often used by the Public Accounts Committee in its review of the public accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.

Improving Financial Administration

4.2.6 In addition to adding credibility, the Audit Office is a catalyst in improving the financial administration of the organizations that it audits.

Large government organizations use large financial and management information systems to manage and administer their programs and activities. Some of these systems are wholly financial, others are less so. Audits of financial statements often involve examining these systems. Sometimes the examination is an in-depth assessment of the effectiveness of the system, but more often it only involves examining and verifying the reliability of the information it processes.

Yet these systems play a major role in the Province's financial administration. The accuracy, completeness and timeliness of the information they produce is often vital to management and to the success of an organization's programs. For this reason, the Audit Office undertakes in-depth examinations of a selection of these systems each year.

These in-depth systems examinations involve:

- identifying those management activities that are most vital to the success of an organization or its programs,
- deciding on the information that management needs to manage those activities,
- establishing whether systems are in place to collect, process and report that information, and
- making recommendations designed to eliminate any inadequacies in the systems or related management procedures.

4.2.7 These recommendations, and similar ones that arise from financial statement audits, are designed to help management strengthen internal control, manage and control resources, promote economy and efficiency, and improve accountability. The beneficial change brought about by the successful implementation of these recommendations improves the financial administration of the Province.

4.3 AUDITING STANDARDS AND APPROACHES

4.3.1 Generally accepted auditing standards and accounting principles are developed and set in Canada by the Canadian Institute of Chartered Accountants (CICA). They are published in the CICA Members Handbook. In addition, the Public Sector Accounting and Auditing Committee (PSAAC) of CICA issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector. In effect, PSAAC statements and recommendations supplement the auditing standards and accounting principles in the CICA Handbook to recognize the special circumstances of the federal, provincial and territorial governments.

Auditing Standards

4.3.2 The Auditor General Act prescribes my reporting responsibilities. It is silent, however, as to the auditing standards to be used in discharging those responsibilities. I believe that the work of my office should adhere, as a minimum, to the auditing standards and recommendations published by CICA and PSAAC.

To date, PSAAC has issued four public sector auditing statements:

1. Auditing in the Public Sector
2. Audit of Financial Statements in the Public Sector
3. Auditing for Compliance with Legislative and Related Authorities
4. Value-For-Money Auditing Standards

Auditing Approaches

4.3.3 The audit approaches used by the Audit Office reflect the relative importance of my reporting responsibilities. Sections 18, 19 and 28 of the Auditor General Act require me to:

- (i) to report on the annual financial statements of funds and Provincial agencies in accordance with generally accepted auditing standards, and
- (ii) to report to management and, where appropriate, to the Legislative Assembly:
 - observed instances of non-compliance with legislative authorities,
 - situations where it is observed that assets are inadequately accounted for or improperly safeguarded,
 - instances where it is observed that control and information systems and practices, including systems relating to economy and efficiency, are absent, inadequate or not being complied with,
 - situations where it is observed that accounting policies and reporting practices are inappropriate or inadequate, and
 - other matters which I consider should be brought to the attention of the Legislative Assembly.

4.3.4 Section 18 of the Act requires all financial statements to be audited each year. The audit work necessary to report on these statements is considerable and consumes a major portion of the Audit Office's resources each year.

Sections 19 and 28 of the Act require me to report system deficiencies, legislative non-compliance or inadequately safeguarded public assets, if they are observed and if I consider them to be significant. However, these sections of the Act do not require the Audit Office to examine each year every area, circumstance or system that could reveal problems of this nature.

4.3.5 An audit of financial statements conducted in accordance with generally accepted auditing standards is designed primarily to report on the fair presentation of financial statements. It is not designed to find the various irregularities reportable under sections 19 and 28, though some may come to the auditors' attention as a by-product of the work performed.

I believe, however, there is a legislative expectation for the work of my Office to extend beyond seeking reportable matters only as a by-product of financial statement auditing. For this reason, annual financial audits are approached with three main objectives. In addition to the work designed to attest to the fair presentation of financial statements, the following work is undertaken:

- At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. During the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities.

Any observed instances of non-compliance with the identified authorities are reported to management and, where appropriate, to the Legislative Assembly.

- Management control and information systems are examined on a selective basis. The Audit Office attempts to maximize the usefulness of its work by identifying for examination those systems and practices essential to the successful operation of an entity. The purpose of these examinations is to promote improvements in the systems that management uses to achieve the objectives of the enterprise. This, however, should not be interpreted as auditing Government decisions and policies; these are correctly beyond the scope of a legislative auditor's mandate.

The scope of the Audit Office's annual audit activity as described above exceeds the minimum requirements of generally accepted auditing standards for financial audits. This enables me to report more usefully to management and, where appropriate, to the Legislative Assembly.

Audit Methodologies

4.3.6 The Audit Office has long recognized the value of the computer as an audit tool. Like most large auditing offices, it makes extensive use of micro computer-based spreadsheets, word processing and other commercial software. In addition, however, it has developed several computer-based aids which assist in improving and measuring the efficiency and effectiveness of its audit work.

One such aid is PROBE, a generalized file interrogation system which enables auditors to process data files from virtually any computer system encountered. It operates on the Audit Office's own computer, thereby ensuring security over processing. An important feature of PROBE is that it is interactive and can be used by all auditors after a very short training period. PROBE continues to be an indispensable audit tool for examining computer files and systems.

4.3.7 Another computer-based aid to auditing developed by the Audit Office is its Audit Management System (AMS). AMS is a comprehensive audit resource management system. It records and reports in a variety of ways the hours and costs budgeted and used on the Office's audits and service functions.

In addition to providing a wide range of information on the Audit Office's operations, AMS is a valuable audit management tool. Auditors access the system by means of on-line terminals and, depending on the size and complexity of their audits, create coding structures for recording and monitoring the resources budgeted and used. This flexibility allows them to plan and control their audits to suit their individual management styles.

4.3.8 Many of the auditing approaches used by the Audit Office emphasize the prevention of errors and irregularities, rather than attempting to be purely detective. I believe that diagnosing and eliminating weaknesses in accounting and other information systems will minimize the potential for loss and waste of public monies and resources.

Detection of Fraud and Error

4.3.9 Before leaving the subject of audit approaches, and to avoid possible misunderstandings, it may be appropriate to elaborate on the application of generally accepted auditing standards to the detection of fraud and error.

In examinations made in accordance with generally accepted auditing standards, auditors fulfil their professional responsibility by complying with those standards. When performing such audits, auditors seek reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported.

When planning these audits, auditors are responsible, within the inherent limitations of the auditing process, for considering the risk of fraud and error and being alert for circumstances that might cause them to suspect their existence. If at any time their suspicions are aroused, auditors must perform additional procedures to confirm or dispel those suspicions.

Accounting Policies and Principles

4.3.10 Accounting policies are the specific accounting principles used by reporting entities, and the methods used to apply those principles. Appropriate accounting policies are those that result in fair disclosure of financial information.

Profit-oriented entities in the public sector should adhere to the accounting recommendations in the CICA Handbook. It is PSAAC's goal that other entities in the public sector base their accounting policies either on PSAAC accounting recommendations or on the CICA Handbook accounting recommendations, selecting the basis that is most appropriate to their individual objectives and circumstances. The basis chosen should be disclosed and consistently applied.

To date, PSAAC has issued five Accounting Statements:

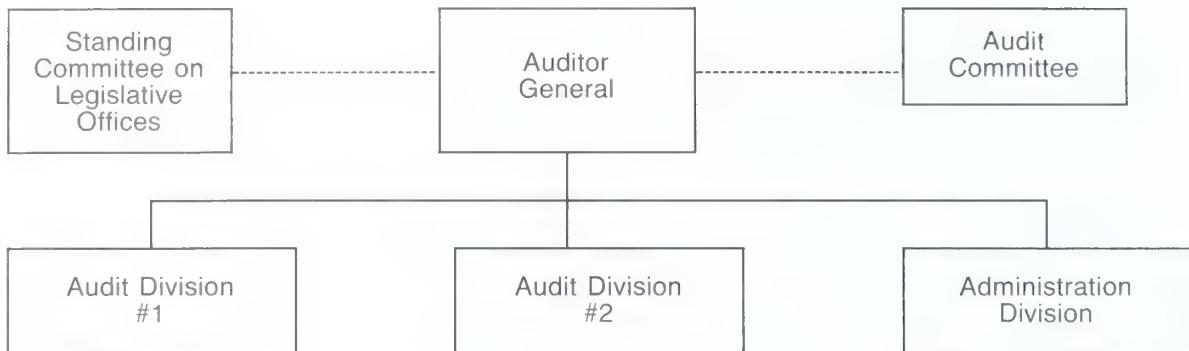
1. Disclosure of Accounting Policies
2. Objectives of Government Financial Statements
3. General Standards of Financial Statement Presentation for Governments
4. Defining the Government Reporting Entity
5. Accounting for Employee Pension Obligations in Government Financial Statements

Compliance with Accounting Principles

4.3.11 The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles. With two exceptions, the rest are prepared in accordance with an appropriate disclosed basis of accounting. The two exceptions are the financial statements of the Province of Alberta Consolidated and the General Revenue Fund. For these statements, the Provincial Treasurer has chosen to explain the bases of accounting in notes to the financial statements.

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.4.1 The organization of the Audit Office is as follows:



The Management Committee

4.4.2 The Audit Office is administered by the Management Committee which sets and monitors the achievement of policies designed to discharge the Auditor General's legislatively prescribed responsibilities.

Each of the Office's Audit Divisions is jointly administered by an Assistant Auditor General and an Executive Director. The Assistant Auditor General is accountable to the Management Committee for the Division.

The Audit Divisions

4.4.3 Each Audit Division is responsible for a portfolio of audits. Audit Principals and Managers are responsible for planning and executing groups of audits, and carry out those responsibilities with the assistance of Audit Supervisors. Each Audit Division has its own staff group comprising Audit Supervisors, Audit Seniors and Student Auditors who are pursuing professional accounting designations.

The Administration Division

4.4.4 The Administration Division provides a variety of administrative and audit-related services to the Audit Divisions and to the Office. These include accounting, personnel and payroll, staff development and performance appraisals, professional practices, legal advice, computer operations and system development, security, and co-ordination of the preparation of the Auditor General's annual reports.

Agents

4.4.5 The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1989 were as follows:

Anderson Macor & Partners
Arthur Andersen & Co.
Bevan, Halbert & Ginet
Clarkson Gordon
Collins Barrow
Coopers & Lybrand
Cuthbertson Sandall & Partners
Dawson, Berezan & Partners
Deloitte Haskins & Sells
Doane Raymond
Hudson & Company
Laventhal & Horwath/Sax.Zimmel.Stewart
Matthew Craig Davies
Mills Unrau Gerlock

Pannell Kerr MacGillivray
Peat Marwick
Price Waterhouse
Thorne Ernst & Whinney
Touche Ross & Co.
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

Audit Office Financial Statements

4.4.6 The audited financial statements of the Office of the Auditor General are reproduced in section 8 of the public accounts of the Province, in accordance with section 30(4) of the Auditor General Act.

APPENDIX 1

INDEX OF AUDIT ENTITIES

- A. Entities audited pursuant to section 12(a) of the Auditor General Act
- B. Entities audited pursuant to section 12(b) of the Auditor General Act
- C. Entities audited pursuant to section 43 of the Irrigation Act
- D. Crown-controlled organizations reviewed pursuant to section 16 of the Auditor General Act

A. Entities audited pursuant to section 12(a) of the Auditor General Act

	<u>Page in Public Accounts</u>	<u>References to Observations in this report</u>
Departments:		
Advanced Education	2.2	2.3.1
Agriculture	2.2	2.4.1
Attorney General	2.2	2.5.1
Career Development and Employment	2.2	2.6
Consumer and Corporate Affairs	2.2	2.7
Culture and Multiculturalism	2.2	2.8.2
Economic Development and Trade	2.2	2.9.1
Education	2.2	2.10.1
Energy	2.2	2.11.1
Environment	2.2	2.12.1
Executive Council	2.2	2.13.1
Federal and Intergovernmental Affairs	2.2	2.14.1
Forestry, Lands and Wildlife	2.2	2.15.1
Health	2.2	2.16.1
Labour	2.2	2.17.1
Legislative Assembly	2.2	2.18.1
Municipal Affairs	2.2	2.19.1
Public Works, Supply and Services	2.2	2.20.1
Recreation and Parks	2.2	2.21.1
Social Services	2.2	2.22.1
Solicitor General	2.2	2.23.1
Technology, Research and Telecommunications	2.2	2.24.1
Tourism	2.2	2.25.1
Transportation and Utilities	2.2	2.26.1
Treasury	2.2	2.2.3
Other:		
Alberta Agricultural Development Corporation	6.6	2.4.2
Alberta Agricultural Research Institute	6.14	2.4.5
Alberta Alcohol and Drug Abuse Commission	6.109	2.16.3
Alberta Art Foundation, The	6.31	2.8.2
Alberta Cancer Board		2.16.3
Alberta Cancer Foundation		2.16.11
Alberta Capital Fund	5.11	3.2.2
Alberta Children's Provincial General Hospital		2.2.9
Alberta College of Art		2.16.5
Alberta College of Art		2.3.11
Alberta Dairy Control Board	6.18	2.4.5
Alberta Educational Communications Corporation, The	6.141	3.2.2
Alberta Electric Energy Marketing Agency	6.156	2.24.3
Alberta Environmental Research Trust	6.88	2.26.3
Alberta Foundation for the Literary Arts, The	6.36	2.12.1
Alberta Foundation for the Performing Arts, The	6.39	2.8.2
Alberta General Insurance Company, The	7.9	2.8.2
Alberta Government Telephones Commission, The	7.32	2.5.2
Alberta Government Telephones Employees' Group Life Insurance Trust Account, The	1.2 (Note 9)	2.24.4
		2.24.6

	<u>Page in Public Accounts</u>	<u>References to Observations in this report</u>
Alberta Government Telephones Employees' Pension and Death Benefit Fund, The	1.2 (Note 9)	2.24.6
Alberta Hail and Crop Insurance Corporation	6.21	2.4.3
Alberta Heritage Foundation for Medical Research		2.24.6
Alberta Heritage Foundation for Medical Research Endowment Fund	5.20	2.2.9
Alberta Heritage Savings Trust Fund	5.26	2.2.4
Alberta Heritage Scholarship Fund	5.40	2.2.9
Alberta Historical Resources Foundation, The	6.44	2.8.2
Alberta Hospital Edmonton		2.16.3
Alberta Hospital Edmonton Foundation		2.16.11
Alberta Hospital Ponoka		2.16.6
Alberta Intermodal Services Ltd.	7.12	2.9.2
Alberta Laser Institute		2.3.6
Alberta Liquor Control Board	7.26	2.23.2
Alberta Microelectronic Centre, The		2.3.6
Alberta Mortgage and Housing Corporation	6.119	2.19.2
Alberta Motion Picture Development Corporation	6.60	2.9.4
Alberta Multicultural Commission	6.48	2.8.2
Alberta Municipal Financing Corporation	6.165	2.2.9
Alberta Oil Sands Technology and Research Authority	6.72	2.11.2
Alberta Opportunity Company	6.66	2.9.3
Alberta Petroleum Incentives Program Fund	5.61	2.11.3
Alberta Petroleum Marketing Commission	6.76	2.11.3
Alberta Planning Fund	5.61	2.19.5
Alberta Provincial Corporation Loan Fund	5.61	2.2.9
Alberta Racing Commission	6.136	2.23.3
Alberta Research Council	6.147	2.24.5
Alberta Resources Railway Corporation	6.159	2.26.3
Alberta Risk Management Fund	5.61	2.2.9
Alberta Special Waste Management Corporation	6.91	2.12.1
Alberta Sport Council	6.128	2.21.2
Alberta Telecommunications Research Centre		3.2.2
Alberta Terminals Ltd.	7.3	2.3.6
Alberta Tourism Education Fund	6.113	2.25.2
Alberta Urban Hospitals Project Management Ltd.	5.61	2.16.7
Alta Telecom International Employees' Group Life Insurance Trust Account, The		2.24.6
Alta Telecom International Employees' Pension and Death Benefit Fund, The		2.24.6
Arctic Institute of North America, The		2.3.7
Athabasca University		2.3.5
Banff Centre for Continuing Education, The		2.3.9
Charles Camsell Provincial General Hospital		2.16.8
Chembomed Ltd.		2.24.2
Centre for Frontier Engineering Research Institute		2.3.6
Chattel Security Registries Assurance Fund	5.61	2.5.3
Consolidated Cash Investment Trust Fund	1.2 (Note 9)	2.2.9
Crop Reinsurance Fund of Alberta	5.61	2.4.5
Culture and Multiculturalism Revolving Fund	4.3	2.8.2
Edmonton Area Hospital Advisory Council Fund	6.116	2.16.12
Education Revolving Fund	4.7	2.10.2

	<u>Page in Public Accounts</u>	<u>References to Observations in this report</u>
Energy Resources Conservation Board	6.99	2.13.4
Environmental Council of Alberta	6.96	2.12.1
Fairview College		2.3.12
Farm Credit Stability Fund	5.45	2.2.5
Fish and Wildlife Trust Fund	5.61	2.15.2
Foothills Provincial General Hospital		2.16.9
Forest Development Research Trust Fund	5.61	2.15.2
Forestry, Lands and Wildlife Revolving Fund	4.15	2.15.2
Gas Alberta Operating Fund	4.30	2.26.3
General Revenue Fund	2.2	2.2.2
Glenbow-Alberta Institute	6.51	2.8.1
Glenrose Rehabilitation Hospital		2.16.13
Government House Foundation, The	6.57	2.8.2
Grande Prairie Regional College		2.3.19
Grant MacEwan Community College		2.3.13
Health Care Insurance Fund	5.6	2.16.2
Horned Cattle Purchases Act Trust Account, The	5.61	2.4.5
Improvement Districts' Trust Account	1.2 (Note 9)	2.19.3
Irrigation Land Manager	6.28	2.4.5
Keyano College		2.3.19
Lakeland College		2.3.14
Land Purchase Fund	4.37	2.2.6
Lethbridge Community College		2.3.15
Livestock Identification and Brand Inspection Fund	5.61	2.4.5
Livestock Patrons' Assurance Fund	5.61	2.4.5
Long Term Disability Benefit Fund - Bargaining Unit	5.61	2.17.1
Long Term Disability Benefit Fund - Management, Opted Out and Excluded	5.61	2.17.1
Lottery Operations		2.27.1
Medicine Hat College		2.3.19
Metis Population Betterment Trust Account	1.2 (Note 9)	2.19.4
Metis Settlements Trust Fund	1.2 (Note 9)	2.19.5
Motion Picture Development Fund	5.61	2.9.4
Motor Vehicle Accident Claims Fund	5.61	2.23.3
Mount Royal College		2.3.16
Natural Gas Pricing Agreement Act Fund	6.80	2.11.3
Natural Gas Pricing Agreement Market Development Fund	6.83	2.11.3
Natural Gas Rebates Fund	5.61	2.26.3
Northern Alberta Children's Hospital		2.16.13
Northern Alberta Children's Hospital Foundation		2.16.11
Northern Alberta Institute of Technology		2.3.21
Northland School Division No. 61		2.10.2
Olds College		2.3.17
Pension Fund	5.50	2.2.9
Personnel Administration Office Revolving Fund	4.19	2.17.1
Province of Alberta Consolidated Financial Statements	1.2	2.2.1
Provincial Judges and Masters in Chambers Pension Fund	5.61	2.2.9
Provincial Sinking Fund	2.17	2.2.2
Public Trustee - Estates and Beneficiaries Trust Accounts	1.2 (Note 9)	2.2.9
Public Works, Supply and Services Revolving Fund	4.22	2.20.2
Recreation and Parks Revolving Fund	4.27	2.21.4
Recreation, Parks and Wildlife Foundation, The	6.132	2.21.3

	<u>Page in Public Accounts</u>	<u>References to Observations in this report</u>
Red Deer College		2.3.18
Registrar's Assurance Fund	5.61	2.5.3
Rural Electrification Revolving Fund	5.61	2.26.3
School Foundation Program Fund	5.3	2.10.2
Small Business Term Assistance Fund	5.56	2.2.5
Southern Alberta Institute of Technology		2.3.22
Special Areas Trust Account	1.2 (Note 9)	2.19.5
Special Reserve Fund (Public Trustee)	1.2 (Note 9)	2.2.9
Stray Animals Act Fund	5.61	2.4.5
Students Finance Board	6.4	2.3.2
Students Loan Fund	5.61	2.3.3
Surface Reclamation Fund	1.2 (Note 9)	2.12.1
Take-or-pay Costs Sharing Fund	6.85	2.11.3
Teachers' Retirement Fund	1.2 (Note 9)	2.10.2
Tourism Education Fund	6.153	2.25.2
Transportation Revolving Fund	4.33	2.26.2
Treasury Branches Deposits Fund	7.40	2.2.7
Treasury Revolving Fund	4.41	2.2.9
Trust Funds	1.2 (Note 9)	2.2.10
University Hospitals Board		2.16.10
University Hospitals Foundation		2.16.11
University of Alberta, The		2.3.6
University of Calgary, The		2.3.7
University of Lethbridge, The		2.3.8
Utility Companies Income Tax Rebates Fund	5.61	2.2.9
Water Resources Revolving Fund	4.12	2.12.1
Westerra Institute of Technology		2.3.23
Wild Rose Foundation, The	6.104	2.13.2
Workers' Compensation Board, The	7.17	2.13.3
391760 Alberta Ltd.	7.47	2.2.9

B. Entities audited pursuant to section 12(b) of the Auditor General Act

	<u>References to Observations in this report</u>
ACCESS Charitable Foundation of Alberta	2.27.3
Alberta Children's Hospital Research Centre	2.27.3
Charles Camsell Provincial General Hospital Volunteer Association	2.27.3
Foothills Hospital Employees' Charity Fund	2.27.3
Foothills Hospital Foundation	2.27.3
Glenrose Rehabilitation Hospital Employee Benevolent Fund	2.27.3
Glenrose Rehabilitation Hospital Employee Charities Fund	2.27.3
Grande Prairie Regional College Foundation	2.27.3
Olds College Foundation	2.27.3
Sulphur Development Institute of Canada (SUDIC)	2.27.3
The Friends of University Hospitals	2.27.3
The Trustees of the Academic Staff	2.27.3

**References to
Observations in
this report**

Benefits Plans of The University of Alberta	2.27.3
University of Alberta Hospitals Staff Benevolent Fund	2.27.3
University of Alberta Hospitals Staff Charities Fund	2.27.3

C. Entities audited pursuant to section 43 of the Irrigation Act

**References to
Observations in
this report**

Aetna Irrigation District	2.27.2
Bow River Irrigation District	2.27.2
Eastern Irrigation District	2.27.2
Leavitt Irrigation District	2.27.2
Lethbridge Northern Irrigation District	2.27.2
Macleod Irrigation District	2.27.2
Magrath Irrigation District	2.27.2
Mountain View Irrigation District	2.27.2
Raymond Irrigation District	2.27.2
Ross Creek Irrigation District	2.27.2
St. Mary River Irrigation District	2.27.2
Taber Irrigation District	2.27.2
United Irrigation District	2.27.2
Western Irrigation District	2.27.2

D. Crown-controlled organizations reviewed pursuant to section 16 of the Auditor General Act

**References to
Observations in
this report**

North West Trust Company	2.2.8
354713 Alberta Ltd.	2.2.8

AUDITOR GENERAL ACT**CHAPTER A-49**

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) “Auditor General” means the Auditor General of Alberta;

(b) “Crown-controlled organization” means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) “department” means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

- (d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;
- (e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;
- (f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;
- (g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;
- (h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of
other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of
Auditor General

- 3(1)** There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.
- (2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.
- (3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of
Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or
removal from
office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

- 6(1)** If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.
- (2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so

appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and
benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor
General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the
Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9.1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the pub-

lic interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General
may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to
information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explan-

ations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

1977 c 56 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

1977 c 56 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

- (a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,
- (b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and
- (c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

- (a) on the work of his office, and
- (b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

- (a) collections of public money
 - (i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,
 - (ii) have not been fully accounted for, or
 - (iii) have not been properly reflected in the accounts,
- (b) disbursements of public money
 - (i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

- (ii) have not complied with regulations, directives or orders applicable to those disbursements, or
- (iii) have not been properly reflected in the accounts,
- (c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,
- (d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or
- (e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

- (a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on
 - (i) the accounting policies employed, and
 - (ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,
- (b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and
- (c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the

Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend

the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

